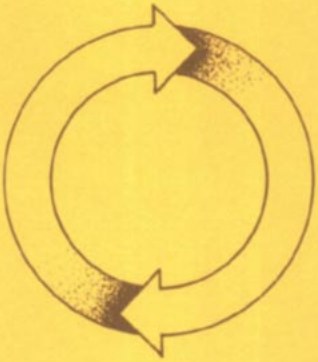
the Freeman

Ideas on Liberty

OCTOBER 1975



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WHAT MAKES JOBS ?

MERRYLE STANLEY RUKEYSER

IT IS fashionable these days to forecast that massive unemployment will persist long after business volume recovers. This current forecasting vogue indicates that somewhere in the thicket of theory the savants lost their sense of direction and forgot that the moral sanction behind the economic system is the service of man.

This dilemma can be traced to confusion as to the nature of work. The deviation from common sense stems from union propaganda early in the century – long before Labor's Magna Charta in the Wagner Act of 1935 – to the effect that labor is not a commodity. The kernel of superficial truth in the concept was carried to absurd extremes. The uncritical conclusion was reached that the worker is exempt from the workings of the market place.

Even anti-Marxians thus fell into the booby trap of unwittingly accepting the Communist principle of divorcing a person's pay from his productivity. They thoughtlessly leaned toward the Marxist notion of paying each "according to his need" while expecting each to contribute "according to his ability." In testing the concept, Nicolai Lenin in the first days of the Soviet Union found that egalitarianism was deadly to productivity.

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Accordingly, in the inauguration of the Five Year Plans, he recognized differences in the value of work and paid differentials in compensation. This led Will Rogers on a visit to observe that he liked Russia because there were no Communists there. Wendell L. Willkie, in his *One World* written during World War II, found in a visit to the Soviet Union that managers were paid ten times as much as workers.

Thwarting the Market

The delusion nevertheless persists over here that the worker is unaffected by the market place. This error is implemented in minimum wage laws making it illegal to employ persons of low productivity at wages which they can earn. And the rigidities of the Wagner Act (many of which were continued 12 years later in the Taft Hartley Act) still interfere with re-employment. These inflexibilities even render unacceptable the alleviative technique employed in the depressed 1930's of sharing the work through reduced hours.

The dictatorial fiat powers of unions don't spring exclusively from Congressional legislation, but also reflect the Judicial determination that unions are not subject to the antitrust statutes and administrative rulings by the National Labor Relations Board.

Behind the prevailing fallacy is the false assumption that generosity toward workers comes out of the hide of management and owners. This overlooks that the physical act of hiring is really an agency procedure, in which the employer acts in behalf of the customer, who is the real user of labor. Management attempts to prejudge whether the customer will later ratify the judgment of the businessman as to what new costs will prove acceptable.

The true interests of the labor force are served when reliance is placed on the expertise of management in anticipating the future willingness and ability of the customer to buy. Thus, it is self-defeating to use brute force to make management assent to an arrangement deemed to be imprudent. Government intervention in tilting the scales of power to unions too frequently turned collective bargaining into collective bludgeoning. It is regrettable that the unemployed are the victims of thus ignoring signals from the open market. A more civilized goal would be collective consultation.

Government, in creating Frankenstein's monster by legislation, has promoted manipulative folly in industrial relations instead of a process for harmonizing differences. On the contemporary scene the British Labor Government

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pleads with the unions to hold wage increases to 10 per cent, despite much lower productivity expectations. And in Argentina Mrs. Peron finds it incumbent to reject the demands of militant unions for increments of 80 to 130 per cent. If mass affluence could actually be attained in this arbitrary fashion, the economic millenium would indeed be at hand. It should be self-evident, however, that equating money gains with advances in material well-being constitutes *opera bouffe* economics.

The aware know that giving employees more and better things in exchange for a week's work depends on enlarging output per man-tool-hour. This in turn comes from better methods, reflecting creativity in the realm of science, invention, engineering and managerial prowess. Improvement inheres in making two blades of grass grow where but one appeared before. Such socially beneficial progress is fed by willingness of self-disciplined income recipients to divert a portion of their receipts from current consumption to savings, which can be invested in capital goods (mechanized tools).

Inflationary Actions

When a governmental agency expands the money supply to meet wages elevated without regard to productivity, the resultant inflation creates mass frustration. Inflation inefficiently distributes the labor supply, and the status quo thus developed can be maintained only by continuing further to inflate the currency. With his customary felicity, Ludwig von Mises, in his classic on "wages, unemployment and inflation" (*The Freeman*, September 1975) pointed out: "Under the impact of progressing inflationary policy the union bureaucracy acquired the habit of asking at regular intervals for wage raises, and business, after some sham resistance, yielded. As a result these rates were at the moment too high for the state of the market and would have brought a continuous amount of unemployment. But the ceaselessly progressing unemployment very soon caught up with them."

It is sheer illusion to regard inflation as a permanent way of life, for in due course inflation brings its own demise by shattering public confidence in the monetary unit.

Blue sky class warriors mistake shadows for reality, overlooking the fact that healthy employment develops when self-supporting specialized workers interchange among themselves the products of their hours of labor. The political manipulators fail to recognize that the open market is a flexible mechanism for adjusting balanced income relationships needed to

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achieve sustainable prosperity. Under competition, industry, though privately owned, is potentially an immensely complex social tool for achieving better living. Instead of surrendering to the hot heads, it is desirable in this computer age to modernize primitive tools for collective bargaining.

The dividends could be far-reaching in better use of the work force. On the other hand, when management is forcibly maneuvered into making irrational decisions, the basis is laid for reduced volume of transactions and greater unemployment. The damage skyrockets when and if management insiders themselves believe the myths, such as the canard that the big companies in highly concentrated industries are above the market and can dictate to customers.

Few non-public utilities are as concentrated as the automobile industry. But, if (as widely charged by academicians and their political sycophants) automobile management can "administer prices" and dictate styles, why the disastrous collapse of sales volume and profits in 1974 and beyond? If the executives can call the shots, then their performance was indeed monumentally stupid! The record shows that the manufacturers were unable to make higher price tags stick even though they reflected a partial cost increase. Customers revealed their independence by staying away from dealers' showrooms in droves, and resultant price-cutting was euphemistically described as cash rebates.

Customers in Charge

In the boom following World War II, domestic car makers overlooked a market for smaller, less expensive vehicles. They were reminded that the customer is the boss when the buyer expressed his sovereignty by purchasing imported compacts. This demonstration was repeated in the first half of 1975. Experience demonstrates that the power of business, big or little, is contingent on pleasing the customer. In a changing world, business survival depends on innovation. Side by side with creative research is the humility of the business executive which causes the executive to heed to his master's voice as expressed in customer plebiscites at the market place.

"Know Nothing" obstruction, however disguised in the language of propaganda, is anti-social and anti-humane. It is retrogressive and condemns the innocent to unwanted idleness. What is fatal is a defeatist view that the right to be wrong is foreordained and irreversible.

The true libertarians, who advocate competition, should not shrink

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from competing in the realm of ideas. As the bi-centennial of the nation approaches, there are two major conflicting doctrines afloat as to how to achieve better living. Distrusting the ability of the "common man" to make choices, the Communist police states delegate to little commissars in big jobs the right to determine what should be produced and in what quantities. In contrast, the free market purports to give optimum opportunity to individuals to express preferences. Much of the futility in which the globe now finds itself springs from the fallacious notion that these two irreconcilable systems can be harmonized into a so-called "mixed economy," more accurately described as a "mixed-up economy."

The resultant effect of trying to mix oil and water has caused theorists to predict that the unemployed, like the poor, will always be with us. There is mental confusion behind such economic Puritanism. For prosperity is no class issue, but springs from an equilibrium conducive to making and exchanging goods and services on a basis which enables workers to live better, while the saver-investor-manager reaps rewards also from high productivity per man-tool-hour.

Frictions develop from illusory thinking about governmental mandates empowering private associations with the right to be obstructive. By way of illustration, persons of little vision advocate being nice to union bosses even if their demands seem to be unreasonable. This distracts management from its decisive role of determining the optimum labor payment at which goods will move. Wise union officials look to the businessman at the other side of the bargaining table for guidance on the matter. Wage rates so high as to cause a buyers' strike are frustrating. The fundamentals are more honored during a recession than in time of boom when there is a reckless tendency to assume that anything goes. Management defaults when it merely passively submits to dictated costs, hoping to pass them along to customers in higher prices. This creates pressures for a cheap money policy, which has in it the seeds of impermanence.

Designed Unemployment: Potential Disaster

Scientific analysis leads to the culprit breeding trouble. The fiat granted by government brings rigidities which result in built-in unemployment, which is chronic in good times and socially disastrous in depressed interludes. After nearly four decades, the premises behind the Wagner Act have become so deeply rooted in the national consciousness that impor-

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tant preliminary spade work is necessary before relief can be expected. As a loner, Senator John Tower of Texas has vainly introduced resolutions through the years for a full dress Congressional inquiry into the desirability of modernizing labor-management legislation.

As a prelude, it is desirable to build a foundation of better public understanding of the national economic body, the functions of the various parts and their relationship to one another. A new grasp of the benefits of freedom could pave the way for liberating the open market from shackles. There is greater potential opportunity for change in times when all is not well.

Important Differences

Ideological improvement or freeing the intellectual atmosphere of pollution cannot be based on public relations techniques to circulate half-truths. In the Great Debate, whenever it comes, there must be courage to escape from the formula of Plato, who taught that the public prefers beautiful lies to the ugly truth. A competitive system rests on a no-holds-barred recognition of human inequality in strength, talent, skill and motivation. Accordingly, it's a perversion for bleating hearts to want to achieve equalitarianism in an open market system. Any attempt to laugh away individual disparities is disruptive to a way of life which is powered by unequal rewards and incentives.

A competitive system can't be all things to all men. Those who object to income differences are quarreling with the Lord of Creation, who failed to make us all identical in aptitudes and talents. It would do less harm if the misdirected visionaries, instead of hamstringing the enterprise system, would in their drive for equalitarianism frankly turn to the Marxist blueprint!

Instead of kidding the unsophisticated, it would be a step forward to concede that, where individual differences are substantial, even highly refined public relations cannot guarantee universal happiness!

IDEAS ON LIBERTY

Power Corrupts

TO EXPECT self-denial from men, when they have a majority in their favor and consequently power to gratify themselves, is to disbelieve all history and universal experience.

JOHN ADAMS

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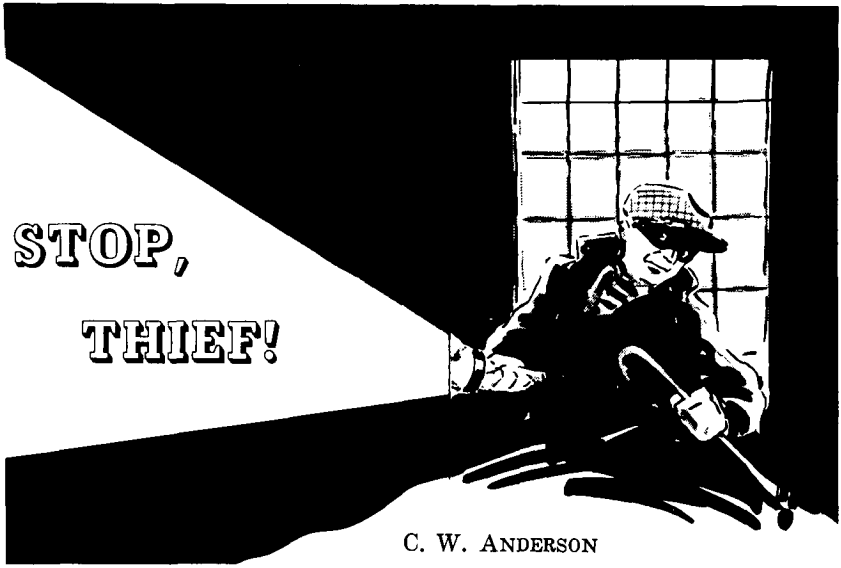

C. W. ANDERSON

WHEN I see what is happening to the average, honest, responsible citizens of this country today, especially those in retirement or close to it, my blood begins to boil. And I am intolerant of those in positions of authority and thought leadership who have convinced most of these people that the accelerating erosion of their earnings is due to some mystical alliance of forces that no one really understands.

In fact, I believe it's about time that a lot of people get angry — and angry enough to fight back and make some noise doing it. What should be shouted from the hilltops, and repeated until it penetrates even the intellectual smog on the Potomac, is the fact that there is *no mystery* about this erosion. It is caused by inflation. Only government growth and spending is causing it and *only government* retrenchment can, and must, stop it.

But, let's back up and fill in a bit! It is a sad fact—and this adds to our frustration — that very few people really understand that the great promise of this free-market economy was that each passing year should bring a *higher value* to invested savings, not a *lower value*. Years ago when a man retired, each of his dollars actually bought *more* in the following years than when he earned it.

Mr. Anderson is President of the Employers Association in Milwaukee.

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This was the very essence of the free market and the high productivity which was brought about by capital accumulation. But most of our educators haven't even recognized this free-market principle. And because of this failure, it is today considered almost unchallengeable that *more money* is necessary for a growing economy . . . that if we *pump more money* into the system, we'll get economic growth.

Purchasing Power

A corollary to this is the current orthodoxy which tells us that the way to share in increased productivity is to raise wages and salaries. Nonsense! Our history clearly shows that the free economy has shared its productivity in the form of *more valuable dollars*. Furthermore, this is the just and humane way because it automatically benefits those who helped make this possible, including those retired on fixed incomes. Without inflation, the millions of retired people should be looking forward to increasing *real* income each year instead of the haunting prospect that they will have less and less. . . . and may, in fact, face dependence on their children or on the state.

What a terrible thing we are doing to these people whose productivity and savings should have brought to *all* of us, workers and retirees alike, a rising standard of living. Instead, they face the demoralizing prospect of dependency – and they don't know why! A bewildering, dimensionless fog of words booms at them from newspapers, radio and TV telling them, in effect, that those in authority who could "save" them don't know why all this is happening – but, they say, they are working desperately to "discover" why, and will then "order" solutions.

I repeat, this is a terrible – an immoral – thing that is happening to Mr. and Mrs. Average American. Truth and facts seem to have no place in this climate of political expediency. There seems to be a conspiracy to avoid the simple, irrefutable fact that our periods of *greatest* economic growth and most rapid increase in the *value* of our money and savings were *not* those when the most new dollars were pumped into the economy nor when we had the most general increases in wages.

It is truly disturbing that this fact is startling news to most people, even graduates in economics, and those in Washington, who propose to "save" us. But, the supporting facts are perfectly clear. They show us that the past few decades of inflation, of collective bargaining with massive ne-

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gotiated wage increases, were *not* the period of our greatest economic growth or increase of *real* income. Far from it! Our national *real* income per capita rose *most rapidly* from 1874 to 1913. That rise, which averaged 4.7% a year, was over *twice* as much as we have been able to generate since 1947 while inflation has been on the rise and negotiated wage increases have been in the headlines. Not one person in a hundred realizes that the general price level actually dropped substantially after 1874 for most of 40 years (e.g., over 20 per cent by 1894) and only regained the 1874 level just prior to 1913. Most of us, however, are painfully aware that prices rose 100 per cent in the 26 years from 1947 to 1973 and that higher wages did not buy as much. In other words, rising wages do *not* always mean rising *real* income. Somehow in the confusion of inflation, the significance of *real* income growth and how it occurred has been lost. To those who will open their eyes, it is perfectly clear that pumping up the money supply (inflation) as we have been doing for over 30 years – has *not* raised *real* income nor brought security for the aging.

Going back now, let's look at a typical employee who retired on a fixed income around 1900. We see why he and his wife could live *better* each year. His concern about dependency decreased each year. Contrast this with today's retiree whose fixed income lost 8.8 per cent of its value in 1973 and 12 per cent in 1974 – over 20 per cent in just 2 years – and who now is haunted by the growing *fear of dependency*. Had he retired late in 1965 on a fixed dollar income, those dollars in 1975 would buy only 60 per cent as much as they would have 10 years earlier.

Show me the humaneness or justice of this kind of treatment of those who produced and saved to be independent and who, in this process, provided the capital which should *increase* productivity and living standards. It is a tragic miscarriage of justice; I think they are being *robbed*.

Political Hazards

So, I am speaking as one who is angry and one who is fed up with the double talk and the mystery that has been woven around what is happening to us. But, I am not unmindful of the political hazards of combating this orthodoxy. The "new economics" has convinced us that *more* money and deficit spending is beneficial and it has blinded us to the truths about *real* growth and its rewards to all those who worked and saved to *cause* the growth. Neither am I unmindful that a number of

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economists who know these truths, but, believing that political forces preclude free-market solutions, suggest only compromises that they believe are politically palatable. I am completely convinced that the *proposal* of such expediencies by respected economists has been responsible, at least partially, for the aura of mystery and frustration which prevails.

How can we ever expect to set our course toward *real* economic growth, toward the *free market* and toward *more* security in old age, without some spokesmen for the ideal? With only politically expedient proposals, where is our true guide toward what is right and humane? Where, indeed! For as we flounder in the morass we have created, it becomes ever more apparent that spokesmen for what is right will *not* appear among the nation's leaders, nor will our course be set toward real, long-range solutions unless more of us get disturbed and irritated enough to shout our disapproval of what is going on.

When so few seem to have any notion of how things really *ought to be* in a free-market economy, without inflation, the need for understanding becomes truly desperate.

Aren't you a little mad? Why not shout a little!

IDEAS ON LIBERTY

One Man's Opinion

ONE FREE MAN says frankly what he thinks and feels in the midst of thousands who by their actions and words maintain just the opposite. It might be supposed that the man who has frankly expressed his thought would remain isolated, yet in most cases it happens that all, or the majority, of the others have long thought and felt the same as he, only they have not expressed it. And what yesterday was the noble opinion of one man becomes today the general opinion of the majority. And as soon as his opinion is established, at once by imperceptible degrees but irresistibly, the conduct of mankind begins to alter.

LEO TOLSTOY

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DARRYL R. FRANCIS

PUBLIC POLICY

For a Free Economy

IT IS A distinct privilege to be the first speaker to address the center for the Study of American Business. I view the inauguration of this center as a timely event, and one that marks the beginning of a program that could have a profound impact on the future of economic freedom in America. While my discussion will be limited to economic freedom, the ideas that I will express have a bearing on all freedoms—economic, social, and political. In my view the three are interdependent, and no one of them can exist without the others.

Reprinted by permission from the May 1975 issue of the *Review of the Federal Reserve Bank of St. Louis.*

Mr. Francis is President, Federal Reserve Bank of St. Louis. These remarks were delivered before the students and faculty of Washington University, St. Louis, for the dedication of The Center for the Study of American Business on April 3, 1975.

Let me begin by stating the basic premises upon which the discussion will rest. I view economic freedom as the freedom to determine and to seek to satisfy one's own wants as he sees them. Aside from its desirability as an end in itself, I subscribe to the widely held doctrine that the promotion of economic freedom is consistent with the attainment of the maximum possible standard of living for society. According to this view, state regulation should be viewed with suspicion as a potential enemy of society's material well-being. On the other hand, maximum freedom for individuals to act in their own self interest should be viewed as a source of the variety and diversification of ideas, experiments, and

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innovations which lead to the discovery of new products and more efficient means of production. If one accepts these premises, then a free economy should be viewed not only as precious in itself, but also as the most promising means by which the standards of living of all members of society can be raised.

The Role of Government — In Theory

If we accept the foregoing proposition, as I am sure most of us do, what then is the role of public policy in assuring a free economy? I see the role as follows. The maintenance of maximum economic freedom demands the organization of our economic life largely through individual participation in a game with definite rules. The necessity of rules arises because absolute economic freedom is impossible. One man's freedom can conflict with another's security and property rights. Hence, each person must give up some freedom in order to resolve individual conflicts. The major problem is determining those freedoms which the individual should give up in order to resolve conflict with others.

Just as a good game requires player acceptance of both the rules and an umpire to interpret and enforce such rules, so a free society requires that its members agree on the general rules that will govern relations among themselves, and on some device for enforcing compliance with them. Unfortunately, we cannot rely on custom or consensus alone to interpret and to enforce the rules; we need an umpire. These then are the basic roles of government in a free economy — to provide a means whereby we can establish some set of general rules, and to enforce compliance with the rules on the part of those few who would otherwise not play the game.

The advocate of a laissez-faire policy today realizes that there is a constructive role for government in the economy; he is not an anarchist. He recognizes that a system which promotes maximum economic freedom may not be a god-send and that its existence depends, in part, upon affirmative government action. However, he also recognizes that each new governmentally enacted rule of the game involves a loss of some freedom. Herein lies the problem; where do we draw the line? At what point does affirmative government action begin to have a net negative impact on economic freedom?

I can offer you no hard and fast principles on how far it is appropriate to use government to maximize economic freedom. However, I would suggest to you that in any particular case of proposed

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intervention, we should make up a balance sheet, listing separately the advantages and disadvantages of the proposed policy. Most importantly, we must always enter on the liability side of any proposed government intervention its effect in threatening freedom, and give this effect considerable weight. For it is an indisputable, yet frequently overlooked, reality that every new rule has its costs in terms of a loss of some freedom.

The Role of Government — In Practice

We have witnessed abroad the culmination of movements from constitutional government to dictatorships, from freedom back to authority. This spectacle, for most of us, is revolting, and something to be avoided at all costs. Yet, faced with the same problems as these other nations, we too have often adopted measures which call for more government authority and less individual freedom. We have often been too eager to justify and rationalize policies which propel us in a direction in which we overwhelmingly disapprove. As an indicator of how far and how fast we have moved in this direction, consider for a moment just a few facts and figures which are indicative of the tremendous growth of the government's influence on our economy.

1) It took 186 years for the Federal budget to reach the $100 billion mark, a line we crossed in 1962, but in only nine more years we reached the $200 billion mark, and in only *four* more years we broke the $300 billion barrier.

2) In 1930, prior to the New Deal, government spending at all levels accounted for just 12 percent of our gross national product. Today, government spending accounts for over 32 percent of our gross national. product, and if present trends continue, government could account for as much as 60 percent of GNP by the year 2000.

3) As the role of government has increased, the bureaucracy has also grown so that today one out of every six working men and women in this country works directly for either Federal, state, or local government.

Why is it, in light of the record, that the burden of proof still seems to rest on those of us who oppose new government programs which curtail our freedoms? Why is it that society seems so bent on curtailing the very freedoms that have netted us the highest standards of living and economic freedom in the entire world?

I submit to you that the reason for this drift is that there are natural biases in its favor. One of these biases has to do with what I will call the regulatory reflex that

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seems to have grown to almost epidemic proportions in our country. The other has to do with the same political realities which led Joseph Schumpeter to argue thirty years ago that there was an irreconcilable conflict between democracy and free enterprise.

Regulatory Reflex

The regulatory reflex operates in the following manner. Upon observation of what some individuals deem an undesirable result produced by the free enterprise system, government officials or the press suggest that this is an area in which the government should "do something." This usually has meant the creation of a powerful new government agency, or an increase in the powers of an existing one. Such an agency is empowered to make decisions regarding the allocation of resources according to its own interpretations of what is best, rather than leaving the outcome to determination by the market process.

Implicit in this reflex is the assumption that the free market system produces undesirable results and that government planning is the means of achieving a more desirable end. Unfortunately, the desired end sought by a group of regulators is frequently not the same as that which the members of society would choose for themselves. The process often results in some group of zealots determining that others should not have what they want, but rather should accept that which the regulators consider "best" for them. This type of thinking, combined with the power to implement it, poses a tremendous threat to freedom, and yet it is becoming increasingly common. For example, witness the proposed compulsory health insurance, social security, seat belt interlock mechanisms, and the issuance of food stamps instead of money to the poor, and the not so poor, to name just a few.

Another aspect of this regulatory reflex is that there are many people who still subscribe to the medieval notion that all business is a zero-sum game. That is, many people believe that one person's profit is another person's loss. Such notions are behind the frequently heard demands that the government should intervene in the market to limit what some consider to be the "obscene" profits of entrepreneurs and "protect" the powerless consumer. This kind of thinking is based on a notion that is absolutely false. Its acceptance requires that we also accept the proposition that some parties to all transactions are either irrational or victims of a fraud.

Free individuals will enter a

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transaction only if they can benefit their own interests as a result. Business transactions are never a zero-sum game as long as the participants are free to choose for themselves and as long as they have alternative choices. There is no question that there are shoddy practices in every profession and that market economies produce goods that are often undesirable to some individuals or poorly made. However, the beauty of the free market system is that if the consumer does not want to purchase such products, he has alternatives, and the businesses that produce them will either shift to accommodate consumer desires or they will fail. The fact is that the alternative to free markets, planning by government bureaucracies, also results in the production of shoddy and expensive products (the postal service and automobile modifications, for example). The crucial difference, however, is that the plans pursued by bureaucracies are not subject to the forces of market competition, and therefore there is no way to test their relative efficiency or acceptability.

Short-run Motivations

I believe that much of the blind faith in the efficacy of government intervention stems from impatience and shortsightedness on the part of many individuals, aided, of course, by the lobbying of those who stand to gain directly from a particular regulatory proposal. Most policies are formulated with an eye to the short run. In a familiar pattern we see a situation arise in which the short-run outcome of the interaction of free market forces is considered by many to be less than socially optimal. The key question is what is the alternative? For example, we have experienced several years of inflation. Impatience leads many to clamor for the quickest solution to the problem. Certainly, in this case, many people believe that wage and price controls fit the bill. A rigid system of wage and price controls will in fact keep reported prices from rising in the short run. Unfortunately, such controls will also create shortages and distortions in the economy that result in severe bottlenecks in the production process. *Reported* prices are temporarily fixed, but the consumer is robbed of the right to purchase those items which are in short supply. However, everyone concentrates on the immediate impact of the controls on the movement of reported price indices and says, "You see how simple that was?"

So it is with most cases of state intervention. The seemingly beneficial effects are direct, immediate, and visible. On the other hand,

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the undesirable effects are often gradual and indirect, and are frequently considered only when they actually occur, if even then. However, the ignored long-run costs of such intervention eventually show up. And, when they do, there is a call for more short-run intervention to correct the problems which arose as a result of the earlier policies. Over a long period of time there is a cumulative and disastrous effect which erodes freedom and detracts from the efficiency of the economy.

Unfortunately, it is a truism that regulation begets further regulation and that regulations outlive their rationale. Though most government regulation was enacted under the guise of protecting people from abuse, much of today's regulatory machinery only provides jobs for the regulators, increases the cost of doing business, and shelters those who are being regulated from the normal consequences of free enterprise competition. In some cases, the Interstate Commerce Commission for example, the original threat of abuse no longer exists. In other cases, the regulatory machinery has simply become perverted. In still other cases, the machinery was a mistake from the start. In any case, the individual, from whatever presumed abuse he is being spared, is paying for the regulation through both a loss of freedom and a loss of material well-being.

While many regulatory programs seem to accomplish their goal (desirable or not) in the short run, they are seldom successful in the long run. The central problem with all of these measures is that they all involve an abridgement of some freedoms. They seek through government to force some individuals to act against their own immediate interests in order to promote a supposedly general interest. They substitute the values of outsiders for the values of participants. Some people are telling others what is "good" for them, or else the government is taking from some to benefit others. These measures are therefore counter to the attempt by millions of individuals to promote their own interests and to live their lives by their own values. This is the major reason why the measures have so often had the opposite of the intended effects.

Possible Conflict Between Democracy and Free Enterprise

Despite the fact that the regulatory reflex contaminates so much of our society, I do not believe that it could be as pervasive as it has been were it not provided with a political framework conducive

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to its proliferation. Consider the situation in a community in which the mass of the people are in favor of economic freedom of choice in their daily lives and are against government direction. As will normally happen, however, many groups are formed which perceive an opportunity for material gain through a particular form of government intervention. Under the guise of such slogans as "fair prices," "equitable wages," or "fair trade" laws, they perceive an opportunity to be protected from the sources of competition. In such situations a political party hoping to achieve and maintain power will have little choice but to use its power to buy the support of these special interest groups by catering to their legislative demands. The reason they will do so is not necessarily because they think that the majority of society is interventionist, but rather because they cannot achieve and retain a majority if they do not solicit support through the promise of special advantages. This means, in practice, that even a statesman wholly devoted to the maintenance of freedom, and who realizes that every new regulation is an abridgement of those freedoms, will be under constant pressure to satisfy the interventionist demands of organized groups.

Some special interest groups undoubtedly favor intervention not for personal gain as much as for what they determine to be for the "good of society." These groups labor under the illusion that they can draft a law to prevent every outcome which they, and frequently only they, deem undesirable. In this case, the operation of the regulatory reflex merely feeds an insatiable appetite for power on the part of those who wish to impose their values on the rest of society. When regulation fails to accomplish its goals, as it almost inevitably does, these people do not call for the repeal of the laws. Instead, they push to amend them into infinite complexity until the purpose of the original law is lost. As a result, the hand of regulation ends up touching every aspect of human action. It is not only wasteful, but serves to destroy incentive and to discourage ingenuity.

Conclusion

It is ironic that groups which constantly look for problems in our country insist on inhibiting the ability of the economy to respond to these problems. For example, present technology does not permit us to have surgically clean air and plentiful electricity at less cost at the same time. However, there is no reason to believe that future technology could not pro-

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vide those benefits. The essential ingredient is freedom to react to incentives and an understanding that individual liberty is not only precious, but efficient. Just as thought control is the great enemy of the freedom of inquiry in academia, economic controls are the great enemy of economic freedom and the entrepreneurial spirit which is needed to solve our problems.

Rediscovering the indivisibility and efficiency of political and economic freedom will take time in a society which has become so accustomed to over-reliance on government intervention. The political and intellectual bias against the free market is strongly entrenched, and there are some who will always find a platform to continue to feed this bias out of a complete misunderstanding of both the political and the market functions.

Those of us who firmly believe in the preciousness and efficiency of a system which maximizes economic freedom more often than not find ourselves on the defensive. Given the biases that seem to continuously propel our society away from such a system, being merely defensive is not nearly enough. We must take the offensive and encourage others to restudy the philosophy of free enterprise. It is in this regard that I applaud the inauguration of the Institute for the Study of American Business. We need to drive home the point that every new rule of the game involves the loss of some freedom and that one cannot erode freedom in one sector of society without adversely affecting all others. In other words, we must insist that public policy be based on a recognition of the desirability, efficiency, and interdependence of political, social, and economic freedom.

IDEAS ON LIBERTY

The Moral Element in Free Enterprise

LET US ENCOURAGE usefulness to one's fellows by all means, but let us not confuse it with the importance of the ends which men ultimately serve. It is the glory of the free enterprise system that makes it at least possible that each individual, while serving his fellows, can do so for his own ends. But the system is itself only a means, and its infinite possibilities must be used in the service of ends which exist apart.

F. A. HAYEK

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Deregulation —*What Prospects?*

GEORGE HAGEDORN

DEREGULATION—a general move toward reducing the degree of direct government intervention in the economy—is now being discussed more seriously than for some time in the past. The Ford Administration is reportedly preparing a program of this character. It will take a new look at the vast accumulation of government regulatory devices and agencies to determine which of them make sense and which do not.

The question to examine here is whether such an effort has any real prospect of success. Some commentators, even those who are inclined to agree that in many instances the adverse effects of regulation outweight its benefits, have suggested that it does not. Deregulation, they say, flies in the face of a long-established trend toward increasing government involvement in the detailed workings of the economy. "You can't turn the clock back," I am continually told when the subject is discussed.

As rational men, we can protest against any such attitude. Why shouldn't the country take an objective look at government regulation of the economy, in all its myriad forms, to assess its benefits and its costs, and to weigh one against the other? Why should one possible conclusion—the desirability of deregulation—be ruled out in advance? The cliché, "You can't

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turn the clock back," seems to mean that once you have made a mistake you must go on making it forever, and reasonable men cannot accept that.

Those to whom such arguments are addressed often nod sympathetically, but they are not convinced. We are dealing, they say, not with a process directed by a rational analysis of advantages and disadvantages, but by a political process that moves by its own momentum. A mood has developed which leads people to insist that, when they are dissatisfied with anything, government will step in to set it straight.

A Hopeful Sign

Disheartening though such a viewpoint may be, we have to admit that it has some weight. But there are other considerations which lead to the opposite conclusion—this may be an ideal time for a move toward deregulation, and its political prospects may be very good indeed. Paradoxically, the fact that so many things are clearly wrong with the economy at this moment is a hopeful sign. We must have been doing a lot of things wrong, and one of these is overregulation. The public is losing faith in government as the universal problem solver.

One example of the falsity of the proposition that when regulation is introduced it can never be removed is the recent fate of wage and price controls. We recall that, shortly after controls were introduced, there was much talk that this action would not be reversed in the lifetime of most of us. In September 1971 (Phase I was in effect and the shape of Phase II was being discussed), the *Wall Street Journal* ran a story that suggested "Phase II may be forever."

But wage and price controls *were* abandoned in April 1974. The clock *was* turned back. The reason for the abandonment of controls was not an ideological change of heart, on the part of either the population or their political leaders. The reason was that controls were a conspicuous and disastrous failure.

A second consideration that leads us to believe that deregulation can be a politically realistic option is the fact that many of the most questionable forms of regulation are of fairly recent origin. True, we have had regulation of railroads since the 1880s, and regulation of financial markets since the 1930s. But the really big wave of government direct intervention in the economy has occurred during roughly the past 10 years. We now have large areas of government regulation in: product safety, occupational health and safety, water and air pollution, equal employment opportunity, etc.

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The objection to most of these recently-introduced forms of regulation is not that their intentions are wrong. No one will defend pollution, or discrimination, or hazardous conditions of employment. The objection is rather that regulation is not always the most effective, or least costly, way of achieving admittedly desirable ends.

The main point, however, is that much of our regulatory apparatus is rather recent. In suggesting a new look at the possibilities of deregulation one is not proposing the unwinding of a historical process that has been going on since our great-grandfathers' time. It is more in the nature of taking a look at the results of a 10-year experiment.

The mounting tide of government regulation is one aspect of the increasing tendency toward government activism during the past decade. The results are now in: we have an economy plagued by inflation, unemployment, slow productivity growth, declining real wages, energy shortages, a breakdown in the transportation system, etc., etc. Surely governmental activism—in all its aspects, including regulation—has been a conspicuous and disastrous failure. It is those who refuse to see the clear evidence of this that seem quaintly to be living in the past—the past of 10 years ago when the present huge volume of evidence against government intervention was not yet available.

IDEAS ON LIBERTY

Keynes Was Wrong

THERE IS NO doubt that the American public is moving away from the Keynesian notions and slogans. Their prestige is dwindling. Only a few years ago politicians were naively discussing the extent of national income in dollars without taking into account the changes which government-made inflation had brought about in the dollar's purchasing power. Demagogues specified the level to which they wanted to bring the national (dollar) income. Today this form of reasoning is no longer popular. At last the "common man" has learned that increasing the quantity of dollars does not make America richer.

LUDWIG VON MISES, *Planning for Freedom*

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The Nobility of the Bourgeoisie

EDMUND A. OPITZ

IF THE MAN FROM MARS were to ask any one of us to point out the business sector of our society we'd direct him first of all to our factories, offices, banks and stores. Then we'd add the transportation industry – rails, trucks, planes and ships. An important segment of agriculture is operated like a business, so we'd add that. The extractive industries would have to be included, and so would lumbering. We would expressly exclude important parts of life, such as government, education and religion, even though business methods are indeed employed by people working in these sectors.

Business, in short, is the economy. Business is the sector from which our material abundance pours forth, in such quantity that we are – in that respect – the envy of the world. Few of those in foreign nations who profess to despise our materialism would carry their antipathy so far as not to avail themselves of our surplus – which of course they accept only as a favor to us! American money and goods have poured into all corners of the globe since World War II, a golden flood financed by the American taxpaper to the tune of some two hundred billions of dollars.

The American economy is an incredibly productive economy; it turns out the goods and services people want and are willing to buy in such quantities as to make us the wealthiest nation on earth. Our material well-being is directly linked to the business system, and that business system has made us an affluent society. Most of the problems that beset us are directly

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related to affluence; we consume a lot, there's so much to throw away, so much leisure time to fill, traffic jams – and so on.

So if we ask "What is the role of business in society?" the easy and obvious answer is "It is the role of business to respond to consumer demand by supplying the goods and services people want." And business performs this role so well that the one-sixteenth of the world's population living in the U.S.A. not only owns the great bulk of the world's goods and lives highest on the hog, but carelessly wastes more than any other nation consumes. The American economy is highly productive, but business nevertheless finds itself with a tarnished image, the butt of many attacks.

Professor J. D. Glover of Harvard Business School writes, "In volumes upon volumes of testimony before Congressional committees, in popular novels, in learned treatises and textbooks, in poetry, in sermons, in opinions of Supreme Court justices, 'big business' and its works are seen as evil and attacked. The literature of criticism of 'big business,' and of the civilization it has done so much to bring into being, represents by now a perfectly staggering mass of material."

Now, it is of course true that business is not the only sector of our society which is presently under fire. Our whole civilization – western culture – has been under siege for several generations, and to the extent that our culture embodies bourgeois values, the attack against the west will join forces with the revolutionary thrust to unseat the bourgeoisie. Furthermore, all facets of our society labor to defend themselves, for have we not been told that there is a ferment in the schools, a crisis in religion, an emergency situation in government, and anarchy in the arts?

"The Good Old Rule"

The attack on business is nothing new. The bourgeois is the townsman, and his emergence was opposed by the aristocracy, whose values were quite different. "The nobleman has courage, spends without counting, despises petty detail. There is a great air of freedom and unselfishness about the nobleman. He will throw his life away for a cause, not calculate the returns. That is the noble *idea*. In reality, he lives by the serfdom of others, and he broadens his acres by killing, and taking other people's land – 'the good old rule, the simple plan. That they should take who have the power, and they should keep who can.'" These words are those of Jacques Barzun, from his 1973 A. W. Mellon

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Lectures, published as *The Use and Abuse of Art.*

Dr. Barzun continues, "The bourgeoisie opposed such noble free-handedness and supported a king who would replace 'the good old rule' by one less damaging to trade and manufacture — and to the peasants' crops. But the regrettable truth is that there is no glamour about trade. Trade requires regularity, security, efficiency, an exact *quid pro quo,* and an exasperating attention to detail. . . . There is nothing spontaneous, generous or large-minded about it. Man's native love of drama rebels against a scheme of life so plodding and resents the rewards of qualities so niggling."

"What a convenient word is bourgeois!" Dr. Barzun observes. "How expressive and well-shaped for the mouth to utter scorn. And how flexible in its application — it is another wonderful French invention!"

It is generally conceded that business is something more than the mere production of goods and services: business is the production of goods and services in response to the voluntary actions of people in the marketplace who either buy or refrain from buying. Business, in short, is the way a free society organizes its economic activities. The buying habits of customers are a clue to producers to manufacture more of this and less of that, or, possibly to go out of business altogether. A more precise designation for this way of doing business is The Market Economy.

The Market Economy

Let me draw a distinction between The Market Economy and the market. The market is simply a shorthand term for the voluntary exchanges that take place between people as they go about improving their economic circumstances. Talents vary from one individual to another, and people discover that they can produce more and enjoy more if they specialize in production and then exchange the surpluses that specialization generates — my oranges for your apples, and so on. Barter occurs among the most primitive of peoples, and when money is introduced it simply facilitates multiple exchanges.

These voluntary exchanges constitute the market, so we can say that the market operates everywhere man has ever lived. And the market operates today even in controlled economies like Russia and China. The market will be with us so long as man is man; it is a basic human institution.

The market, yesterday, today, and forever; but the market economy is a rare phenomenon which has emerged only for short periods

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during human history. The market economy is the market institutionalized. The market by its own devices does not produce the market economy; a catalyst is needed for that — several catalysts, perhaps.

The market economy needs the bourgeois virtues; it needs the middle class. Now, the middle class rarely inspires the poets and men of letters, but that remarkable woman, Freya Stark, puts her finger precisely on the point. "I will hold that the middle class produces civilization because it is the only class constantly trained to come to a conclusion, poised as it is between the depth and the height. It is not rich enough to have everything, nor poor enough to have nothing — and it has to choose; to choose between a succulent table and a fine library, between travel and a flat in town, between a car and a new baby or a fur coat and a ball dress. It has enough of the superfluous to give it freedom from necessity but only through the constant use of discrimination; its life therefore is of one long training of the judgment and the will. This by itself does not manufacture greatness; but it is the soil on which it is possible to make it grow."

Now, whatever our assessment of the middle class and its virtues, we would have to agree as a matter of historical fact that it has been a target for attack from many quarters, and it continues to be a target. Karl Marx added enormous momentum to the assault. Marx's notion of surplus value and his exploitation theory inspired revolutionary frenzies on all continents, even though Marx was dead wrong. Marx's charge is that the income of the bourgeoisie, or the capitalist class, comes out of the hide of the working class; some people are given an economic advantage over other people, and thus some live at the expense of others.

The Consumer in Charge

This description does fit the situation wherever the market economy has *not* been established; feudalism operated this way, and also every aristocratic order. But in the market economy — or system of liberty — the businessman's income is a measure of his success at pleasing customers. He's at their mercy, for if they do not buy he does not stay in business. Every man's income is determined in similar fashion. A man's wage is a measure, in monetary terms, of what people think his services are worth. What a man earns is not a measure of his true worth, *sub specie aeternitatis;* it simply tells us what his peers think of him, and they may be wrong.

But right or wrong, it is con-

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sumers in voluntary action who determine the division of rewards in a free market. "It is a proposition of elementary economics," writes Frank R. Knight, "that ideal market competition will force entrepreneurs to pay every productive agent employed what his cooperation adds to the total, the difference between what it can be with him and what it would be without him. This is his own product in the only meaning the word can have where persons or their resources act jointly."

The Power to Please

In the free economy, a man advances his economic fortunes by trying to please consumers, over whom he has no authority save persuasion and the sales appeal of his goods. This is the business system. Every alternative to this voluntary arrangement puts government at the service of the powerful who, by the exercise of coercion, obtain their income at the expense of those without power. Government, in this scheme, is an instrumentality for distributing economic advantage, and a man's income will depend on favors from the politically powerful. Either that, or he must wield power himself. A society arranged in this latter fashion is accurately labeled a system of privilege, in contrast to the system of liberty. Neither system exists historically in pure form, but one might schematize the difference by saying that in the system of liberty a man derives his financial rewards by pleasing the customers, whereas under every system of privilege he obtains an income by pleasing politicians.

Now this latter arrangement is indeed a system of exploitation; government — by taxation and subsidy — takes a portion of wealth from those who produce it and distributes it to people who have not earned it. But paradoxically, it is this arrangement — variously disguised — which now ranks high in public esteem, while the business system — which rewards men according to their productivity — is ever on the defensive.

Businessmen taken individually are, I suppose, as good and as bad as the average run of people in any other sector of society. They are guilty of fraud on occasion, and so are scientists; but no one on that account suggests that the scientific enterprise be subject to all sorts of government regulations and bureaucratic controls. Businessmen are sometimes tempted to overstate the virtues of their product, just as some newspapers are prone to slant and distort news items. But no one suggests government censorship of the press. Government itself is

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occasionally guilty of suppressing facts and keeping the public in the dark; but who will guard the guardian? The point is that when politics is invoked to cure a social ill it is usually business that suffers a loss of portions of its freedom to government controls.

Freedom Indivisible; Depends on Enlightened Self-Interest

But economic freedom is not that important, it might be said. Liberties of the mind, on the other hand, or liberties of the spirit, they must be protected. The intellectual must be free, but it matters little whether the businessman is bureaucratized or not. As a matter of fact, freedom is all of a piece, and if we fail to resist government encroachment into any sector of life because we deem that sector unimportant to us, then we will enfeeble our capacity to resist where we deem resistance vital.

Milton Friedman, tongue in cheek, offers a clever observation here, linking the businessman with the intellectual as the twin enemies of freedom. "It has often seemed to me," writes Friedman, "that the two greatest enemies of the free market are businessmen and intellectuals, for opposite reasons. The businessman is always in favor of free enterprise – for everybody else; he is always opposed to it for himself. The intellectual is quite different; he is always in favor of free enterprise for himself, always opposed to it for everybody else. The businessman wants his special tariff or his special governmental commission to interfere with free enterprise, in the name, of course, of free enterprise. The intellectual, too, wants such commissions to control the rapacious man. But he is against the idea of any interference with his academic freedom, or his freedom to teach what he wants and direct his research as he wants – which is simply free enterprise as applied to him."

Everybody wants to be let alone so that he is free to pursue his own bent, but only a handful of people have ever worked as hard for other folk's liberty as they do for their own. Wouldn't it be a nice arrangement if scientists worked for freedom of the press, and editors for the rights of medical doctors, and doctors stood firm for freedom of speech, and churchmen jealously guarded freedom of economic enterprise?

Alas, it is not so, and paradoxically, many businessmen have no concern for the free economy if a political intervention maximizes their profits even though it deteriorates the general climate of economic liberty. This would not matter much, except for the fact that economics deals with our sub-

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sistence, and if some one gains control over the economic means which we must have or die, he has acquired an enormous leverage over every sector of our lives. This is self-evident; it is so obvious that we tend to overlook it. We forget that the essence of slavery is the command over another's will gained by controlling his access to the food and shelter he needs to survive.

Parliaments discovered "the power of the purse" centuries ago; an unruly king could be made more pliable if an elective body could cut him off at the purse strings. Alexander Hamilton reminded the Colonists of this point in his 73rd *Federalist Paper:* "The legislature, with a discretionary power over the salary and emoluments of the Chief Magistrate, could render him as obsequious to their will as they might think proper to make him. They might, in most cases, either reduce him by famine, or tempt him by largesses, to surrender at discretion his judgment to their inclinations." Hamilton does acknowledge that there are some men whom no threat can cow: "There are men who could neither be distressed nor won into a sacrifice of their duty; but this stern virtue is the growth of few soils; and in the main it will be found that a power over a man's support is a power over his will."

Economic Control

Hamilton was so keen on this point – that economic control is the control of the means for all human ends – that he drove it home by a further reference in his 79th *Paper:* "In the general course of human nature, *a power over a man's subsistence amounts to a power over his will.*"

Work is built into the human situation; human beings must actively transform portions of their natural environment – raw materials – into consumable forms (food, clothing, shelter, and the amenities) or we perish. We are not "free" to disregard this or any other fact of the human situation, that is, if we want to succeed in our various endeavors. We are not "free" *not* to work. People who work in a system of privilege – totalitarianism, Communism, Socialism, collectivism – labor for a single employer, the State. This is a command economy; every person labors at the task the State assigns him, or else! As George Bernard Shaw once put it, "Compulsory labor, with death as the final penalty, is the keystone of Socialism." People are controlled by State control of their livelihood.

Material necessities are omnipresent, and a system of liberty – the free economy – does not eliminate them: human energy must be expended in order to fashion con-

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sumable goods out of natural resources. But here, in a free society, every man and woman is free to choose the context for his or her productive actions; a person may choose to work for himself or, alternatively, he may choose among employers and work for wages. And if the wage and price structures are flexible, the free economy has an insatiable demand for labor; when the market is truly functional, jobs are abundant. The economic forces generated by the business sector of society do not cause unemployment; mass unemployment results from the political distortion of economic forces.

Business Serves Society

I am suggesting that the blame is misplaced when business is accused of causing unemployment, and of somehow falling down on its presumed responsibility to keep everyone working. The real reasons for poverty and unemployment must be sought from the economists and political scientists. Meanwhile, let us ask what positive contributions business makes to the good society, in order to give credit where due. Some years ago I was involved in a project in this area, with Admiral Ben Moreell, and I'd like to summarize our conclusions. We found, first of all, that the social forces set in motion by business and industry tend to reduce coercion, prejudice and irrationality in human affairs.

1. **Coercion** There is general agreement among political philosophers as well as the public at large that political action is coercive. What about business action; is it also coercive? The answer is No. The businessman, as such, has no power to coerce. He cannot force people to buy his goods or services. He may call upon government for special privilege and thus obtain a coercive monopoly. But by doing so he forfeits his status as purely a businessman and becomes in part a politician, or at least the junior partner of a politician.

The production and exchange of goods and services is a wholly peaceful procedure. A business society tends to be a peaceful society if only because peace maximizes the conditions under which the production and exchange of goods is facilitated. And peace is essential for social progress and individual advancement.

The businessman, having no means of coercion at his disposal, must rely on persuasion, advertising and public relations. Every other person, at home and abroad, is his potential customer; so other persons must be cultivated if they are to become customers. The peaceful exchange of goods

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throughout the world paves the way for exchange of ideas and encourages personal travel. These are of the essence of business activity, and they comprise the things which make for peace. So, on the whole, business tends to reduce coercion in human affairs.

2. **Prejudice** A man's judgment can rise no higher than his acquaintance with the facts. Prejudice is a premature judgment based on insufficient evidence. As applied to human affairs it implies an irrational dislike of some people based on their opinions, their nationality, the color of their skins, or their religion. What does the rationale of business do about overcoming prejudice? The clear-cut answer is that, in this area, economic considerations have top priority for the businessman. In general, the businessman does not concern himself with the color of another person's skin if the color of his money is all right. Thus money may be a social device productive of great good, even though the love of money be the root of all evil.

As an employer, the businessman penalizes himself when he refuses to hire the best available man for the job because of some noneconomic considerations. His business sense dictates otherwise. The same is true when, as a seller of goods, he refuses to make a sale for other than economic reasons. Thus the mechanism of trade acts to break down the barriers of prejudice.

3. **Irrationality** In a good society people act in reasonable, sane, and sensible ways, and business disposes them so to act. Modern business rests on technology which, in turn, rests on science. Science and technology demand a high-level, rational pattern of thought and action. The scientist, the engineer, the business manager must all be rational. Thus, business contributes to the forces in our society which exert a strong pull in the direction of reasonableness in human affairs.

Desirable Business Traits

Now let us see what desirable *positive* traits are fostered by business. There are at least four important ones; integrity, understanding, reasonableness, and individuality.

1. **Integrity** No society can long cohere unless people find that they can trust one another, nor can a business long endure unless its products represent honest workmanship. Regular customers, an essential for the survival of any business, cannot be attracted and held without a quality product. Our entire system of deferred exchanges and credit is based on trust. The enormous network of

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mutual trust and confidence which underlies our system of business is a social force of great momentum, heading in the right direction. It makes for integrity in society.

2. **Understanding** A hermit who grows his own food and produces for his own use consults only his own needs and tastes.

But everyone who produces goods or services for exchange must consult the needs and desires of other people. The businessman must build up a clientele. He cannot do this unless he understands the need of his customers and causes them to feel that he can be trusted to fill that need, now and in the future, for products they want at a price they can afford to pay.

3. **Reasonableness** The vital stake which business has in peace tends to create situations in which men seek a reasonable adjustment of their differences instead of fighting about them.

A businessman does not want conflict with his customers, he wants to reason with them so he can persuade them to accept his goods. As the atmosphere of reasonableness begins to permeate all of society, people come to appreciate the variety in human life. Instead of a desire to make other people over in their own image, they want every other person to progress as far as he can "on his own steam." In a reasonable society no man tries to play God for other men.

4. **Individuality** To the extent that business enables persons to take care of the economic requirements of life with a minimum expenditure of time and energy, it puts at their disposal increasing amounts of both, to be used in whatever individual and creative ways they see fit. Not every person will use them wisely, but if the surplus does not exist, if people are bound down by unceasing toil, there can be no flowering of those higher faculties of man which I have mentioned before. Thus, business provides the condition which can release whatever potentiality individuals may possess.

The chief end of man is not to accumulate material goods; nearly everyone would agree that human destiny lies in another dimension. Every person is gifted with potential talents, and he's equipped with an innate drive to bring them to a full and harmonious realization. Now, neither the free economy nor its business sector can guarantee such realization to every person; this is a matter for individual decision. All the free society can promise is maximum and equal opportunity — and this is all the guarantee we need.

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better Bread than dead

SUSAN LOVE BROWN
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PRIVATE PROPERTY has been the object of attack ever since the first non-producer enviously viewed the fruit of the labors of the first producer. The institution of private property has been condemned for perpetuating every manner of social injustice imaginable. Marx and Engels called for the abolition of it, and Pierre Joseph Proudhon, a social-theorist contemporary of Marx, declared, "property is theft."[1] But how can one steal if there is no concept of property? How can anything belong to everyone, or everything to no one?

For years there has been a long and tireless argument about property rights versus human rights. Yet even a small child could figure out that property has no "rights." Only *humans* have rights. However, the *rights* which humans have are *"property."*

In an article entitled "What is Property?" William W. Bayes points out that the fundamental right for a human is the right to his own life. He *owns* his life. "His life does not belong to any other person or group. The *thing owned* is his body, and the related right to act, or property right, is the right to live. Now, matter is eternal, but human life is not; life must be sustained by procuring and consuming the means of subsistence. If we agree that man has a right to live, we must agree that man may use the mental and physical faculties to procure those means. Since the means (food, clothing, shelter, and the like) do not usually lie readily at hand, he must find or grow the food, manufacture the clothing and build the shelter. In short, he must produce."[2]

It then must follow that if production is necessary to life, and

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you own your life, then what you produce must belong to you, or there is no meaningful right to your own life. As Bayes points out, "a corollary of the right to produce is the right to keep that which one has created. If one may keep this product, it follows that one may consume it, exchange it for goods or services offered by someone else, sell it, or give it away. He may do all these things because *the right of the producer is anterior to that of any other person or group.* [Emphasis added] To assert that he does not have a primary right is, in effect, to deny him any right whatever. It is to say that he holds his property by sufferance of anyone (including a government) who is stronger than he, and that it is proper to plunder. But if it is proper to plunder from the producer, then it must, *a fortiori,* be proper to plunder from one who has himself plundered. It must then follow that only might can make right – one may take from another when one has the might, and one may keep only what one has the might to defend. Unless a person is prepared to accept the 'might makes right' philosophy, he must respect another's right to live, to produce, and to consume, keep, exchange, sell, or give away that which he has produced."[3]

Property does not consist merely of real and personal possessions. Dr. Bayes continues, "Intangible, or incorporeal, rights which we Americans value as priceless, such as those guaranteed by the Constitution, being *things owned* and involving the *right to act,* are property. This means that such rights as the rights to free speech, to worship, to peaceful assembly, and to due process, are all property. If they are property, then the rights involved are essentially property rights. There is no right which is not property, and there is no property which, if not a right in itself, is not a fruit of the exercise of a right."[4]

That rights themselves are property is a legitimate part of our political heritage. John Locke asserted that we have property in our persons as well as in our possessions. Both Thomas Jefferson and James Madison believed that "government may not violate, directly or indirectly, 'the property which individuals have in their opinions, their religion, their persons and their faculties'."[5]

At this point Bayes makes an observation: "It is interesting to note that many professors who do not share this traditional view of property pay it unwitting tribute when they insist upon 'academic freedom.' For so-called academic freedom is nothing more than the right to hold (i.e., to *own*) opin-

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ions and to utter (to *use* and *enjoy* and *dispose of*, as property) those opinions. If they are paid for a speech, an article in a periodical, or a book, they are being paid for the articulate expression of their expert (or perhaps merely interesting) opinion. It is absurd to suppose that they should receive payment for something that was not theirs to sell, not their property. The property lies in their opinion which is fortified and given commercial value by their expert background knowledge and their ability to express that opinion clearly and interestingly."[6]

The individual's right to do as he may wish with his own property does not include the right to do as he may wish with someone else's. The fact that an individual owns a baseball does not mean that he has the right to hurl it through someone else's window. This is not a limitation of property rights by "society" or by the State; it is merely the recognition of the equal property rights of other individuals.

For example, the abolition of slavery was not a limitation of property rights, as some would have us believe, for no such "right" existed in the first place. The institution of slavery was not an exercise of property rights, but a violation of them in that a slave was denied the right to control his own life. The abolition of slavery did not limit property rights; it affirmed them for all people of all colors.

In his history of the Plymouth colony, Governor Bradford describes how the Pilgrims farmed the land in common, with the produce going into a common storehouse. For two years the Pilgrims faithfully practiced communal ownership of the means of production. And for two years they not only nearly starved to death, but there was also great discontent with the system:

> For the yong-men that were most able and fitte for labour and service did repine that they should spend their time and streingth to worke for other mens wives and childre, with out any recompense. The strong, or man of parts, had no more in divission of victails and sloaths, than he that was weake and not able to doe a quarter the other could; this was thought injuestice . . .[7]

Governor Bradford wrote that "famine must still ensure the next year also, if not some way prevented." The "some way" decided upon was the introduction of the institution of private property, and the results were dramatic:

> By this time harvest was come, and instead of famine, now God gave them plentie . . . And in the effect of their perticular private

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planting was well seene, for all had, one way and the other, pretty well to bring the year aboute, and some of the abler sorte and more industrious had to spare, and sell to others, so as any generall wante or famine hath not been amongest them since to this day.[8]

The Virginia colony had similar experience. Captain John Smith wrote:

When our people were fed out of the common store, and laboured jointly together, glad was he could slip from his labour, or slumber over his taske he cared not how, nay, the most honest among them would hardly take so much true paines in a weeke, as now for themselves they will doe in a day . . . [9]

Without property rights, no other rights can be secure. When property is controlled by the State, rights are not rights at all, since their exercise is conditional, depending ultimately upon State approval. To argue to the contrary is to say that there are no rights — merely favors to be given to you or taken from you as determined by some one or some group.

In his book, *Fruits of Fascism*, Herbert L. Matthews quotes Mussolini as declaring: "Property is not only a right, but a duty. It is not an egoistic possession, but rather a possession which should be employed and developed in a human and social sense." And as Matthews observes:

That, in Fascist terminology, came to mean that private property, like everything else, had to be placed at the service of the State, and one may well ask to what extent the institution (private property) was infringed upon by taxation, forced investments, and the whole structure of governmental interference which told a man what he should produce, how much, with what labor and at what price. In short, can there be a private property under a totalitarian system? Individuals are left with the title to their property, but since they can only use the property in certain ways specified by the regime, it becomes a form of state property as does everything else.[10]

To what extent private property is being placed at the service of the State in this nation today can best be contemplated on the basis of a few current examples.

In 1972 the voters of the State of California passed by initiative the Coastal Zone Conservation Act which set up "Coastal Commissions" with almost unlimited, dictatorial powers. The Act defined the Coastal Zone as extending from the Oregon to the Mexican border, as far out to sea as the outer limit of the State jurisdiction and as far inland as the highest elevation of the nearest coastal mountain range. This tremendous area includes such cities as Los

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Angeles, San Francisco and San Diego. A portion of the initiative reads: *"The People of the State of California hereby find and declare that the California Coastal Zone is a distinct and valuable natural resource belonging to all the People."*[11] And if such preemption of millions of acres of private property were not enough, there is not one word in the language of the coastal initiative which refers to compensation for the expropriation of private property rights.

A former member of a California Regional Coastline Commission, M. Bruce Johnson, writes in *Reason* magazine:

A land owner came before the Regional Coastal Commission on which I served and requested a permit to construct a condominium development on four acres on the California coast. The application was denied at a public hearing on the grounds that the erection of said buildings would obstruct the view of the water from the nearest State highway. The fact that a scenic drive already existed between the water's edge and the parcel was dismissed as irrelevant.

Inasmuch as any structure – not just the proposed condominiums – would obstruct the view from the nearest State highway, I inquired whether there was *any* permissible use of the land. The Commission's staff responded that the four acre parcel might be used for a golf course or a cattle ranch. Ever played a round of golf on a one hole course? Or heard of a viable cattle ranch with four head of cattle?

Other projects have been blocked following staff recommendations for denial on the grounds that "the project would remove alternatives available to any agency in the area of planning." In other words, the right to use privately owned land belongs to the State, not the individual. The inescapable conclusion is that the owners of these parcels have been stripped of virtually all of their property rights without compensation. They retain only the title and the liability for taxes.[12]

Another example of this concen-

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trated power concerned the proposed expansion of the San Diego Gas and Electric Company's atomic power plant at San Onofre. An official of the Atomic Energy Commission confirmed that the expansion plans were reviewed and approved by at least 33 federal, state and local (environmental and safety) agencies. It took San Diego Gas and Electric Company three years and almost $228 million in modification costs to receive approval from all of the necessary agencies. Yet on December 5, 1973, the Coastal Commission (which was voted into existence long after San Onofre's expansion was in the review stages) was able to veto the action of its Regional Commission and end the plans for expansion. Although the energy crisis and public opinion later caused these eleven men to reverse their ruling, the fact that they had the power to make such a ruling is inconsistent with the principles of a free country.[13]

Still another example of this Coastal Commission's power involved AVCO Community Developers, Inc., in Southern California. This large industrial conglomerate proposed to develop their coastal acreage with a combination of spacious condominiums (45% under county maximum density requirements), tennis courts, pools, public golf courses, etc. Beyond this, they made available to the county 34 acres of ocean front property for a public beach. The privately-owned land was completely graded for construction before the Coastal Commission was empowered. In order to proceed with construction, AVCO had to apply to the newly formed commission for the necessary permits. They were denied.

AVCO was then caught between the conflicting demands of two government agencies. On the one hand the county demanded that AVCO finish the promised public beach by a certain date, while on the other hand the Coastal Commission denied the required permits to complete the work. In the meantime, the company paid (and is paying) $15,000 a day in taxes on the unused land.

In an effort to save the rich top soil from erosion during the rainy season, AVCO proposed that the commission at least allow them to seed their own land with grass. This was also denied as it was feared by the commission that AVCO, as a result of having put more money into the development, would then have a stronger legal case. Two years have passed and the land, which is a vicious eyesore, continues to erode each rainy season until now, even during light rain, the ocean becomes brown from the washed-out soil.[14] Is this

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protecting the environment or the commission's power?

Without a doubt, many Americans, particularly urban dwellers, are becoming increasingly concerned about the social ills caused by overdevelopment: traffic congestion, air and water pollution, urban sprawl, to mention but a few. But giving government more power to cope with these problems has not worked and government empowered to dispense favors usually ends up corrupt, inefficient, and dispensing these favors to those with "influence."

What are some possible answers to these problems? Adjust property taxes so a farmer's land won't have to be sold to developers in order to pay these taxes. Insure that property rights include the right to develop one's own land, but *not* the right to harm others by polluting the air, contaminating the water or causing an intolerable level of noise. Jeopardizing or causing harm to another's life or property would be illegal in a free society.

In effect, this is just what the Supreme Court declared in *West Virginia State Board of Education v. Barnette:* "One's right to life, liberty, and property . . . and other fundamental rights may not be submitted to a vote; they depend on the outcome of no elections."[15]

If this were not true, any legislation the majority could agree upon would be "legal," whether it would be forced sterilization for members of a particular race, euthanasia for everyone over the age of 65, or limiting the freedom of speech to those considered "responsible."

The initiative creating the California Coastal Commission and similar such proposals before Congress not only regulates a person's private property according to the vote of the majority, but there is no compensation for any damages incurred by the implementation of such regulations. The State controls your property. You just have the title.

– FOOTNOTES –

1 Cited by William W. Bayes, "What Is Property?," *The Freeman*, July 1970, p. 392.
2 *Ibid.*, pp. 394-95.
3 *Ibid.*, pp. 395-96.
4 *Ibid.*, p. 397.
5 *Ibid.*
6 *Ibid.*, pp. 397-98.
7 Henry Hazlitt in *Cliches of Socialism* (New York: The Foundation For Economic Education, 1962), pp. 174-75.
8 *Ibid.*
9 *Ibid.*
10 Herbert L. Matthews, *Fruits of Fascism* (New York: Harcourt, Brace and World, 1943), pp. 144-45.
11 M. Bruce Johnson, "Piracy on the California Coast," *Reason*, July, 1974, p. 18.
12 *Ibid.*
13 *Los Angeles Times*, December 9, 1973.
14 *Ibid.*, August 19, 1973.
15 M. Bruce Johnson, *op. cit.*, p. 19.

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Liberty and Property

DAVID KELLEY

MODERN LIBERALS, for years, have had a selective love of liberty.

In the realm of ideas, they defend the individual's right to freedom of thought, to freedom of expression, and his right to choose the values he will live by. They reject state censorship, as well as "the enforcement of morals." Their approach is from the point of view of the individual, pitted against a state that tends toward oppression. In the realm of material production and exchange, however, they identify with the state, repudiating individual property rights, sponsoring economic regulations that cover the entire course of production, from the capital markets to the consumer's hands.

In a word, they advocate freedom in intellectual, but not in economic matters. But this distinction among realms is artificial; the doctrine based upon it is false; and its consequences in reality are self-destroying.

The source of rights, of man's moral claim to freedom, is his rational nature. Reason is man's tool of survival, his means of living. Human action by nature is rational action, proceeding from the mind of an individual. And freedom from coercion is a requirement for such action. A man cannot act on the basis of his mind if the will of another is interposed

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between his mind and his actions. Man has, therefore, a moral claim – a right – to freedom of action.[1]

Because freedom is a condition of human action as such, it is a condition for all human action. Indeed, the different rights, including the right to property and the right to liberty, merely specify different aspects of free action. The right to property is a recognition that man is not a disembodied spirit, that he lives in a material world and needs to make use of physical objects. The right to liberty is a recognition that man is not an automaton or an animal, that he must act on the basis of his reason, translating his ideas into reality. But the use of property and the use of the mind are not two different types of action; they are two different aspects of one type of action – human action. Each implies the other.

The Uses of Property

On the one hand, any exercise of liberty involves the use of property: a thought cannot be translated into reality without the physical means of doing so. And this applies to the expression of ideas as much as to any other sort of activity. The expression of an idea requires a physical medium – printing presses, airwaves, lecture halls. The *right* to express oneself must then include the right to acquire and use these media. A government which owned or controlled all the media, thereby abrogating individual property rights in them, would violate the right of expression. It is not merely that this government would be likely to restrict freedom of speech by restricting access to the media. Even if it allowed access to anyone who wished it, it could not recognize their right to access, since it *owns* the media. Freedom of access would be a privilege, on which the state could place any conditions it wanted. The same may be said for the moral choices that the liberal says we have a right to make freely, all of which involve the use of material goods.

On the other hand, any use of property is an exercise of liberty. The physical plant of a newspaper, publisher or university is an obvious example: its use is determined by the ideas which its owners wish to communicate. But the same is true of a steel mill, a bank, or the family plot of land – these too are used by their owners to realize their ideas. It is true that the latter are not expressing ideas; they have goals other than the *communication* of knowledge or opinion. But communicating an

[1] Ayn Rand, "Man's Rights," *The Virtue of Selfishness* (New York: New American Library, 1964).

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idea is only one form of acting on it. The industrialist, the financier, and the home-owner are acting on their judgment in using their property; they are expressing their ideas in action.

The Power of an Idea

Liberal intellectuals have shown a narrow insularity in restricting the concept of liberty to intellectual freedom, as if their own specialty were the only possible outlet for the mind. It is not. The discovery and communication of knowledge is one branch of production; but all production, regardless of the product, is an intellectual process requiring the producer to act consistently on his reason.

Correspondingly, freedom of speech and of the press are specific forms of liberty, with special relevance for the work of intellectuals; but there is no valid distinction in importance between these and other forms of liberty. Intellectual freedom is necessary because man needs knowledge of reality, and such knowledge is the product of independent minds. But material goods are no less important, and they too are the products of independent minds. An intellectual properly objects when he is prevented from speaking because someone else does not like the content of his thought. But exactly the same injustice occurs when a businessman is prevented from offering a new product, or completing a merger, or firing a worker. He is being prevented from translating an idea into reality because someone else does not like the content of his thought; he is being prevented from using his mind freely.

Thus liberal theory, in separating liberty and property, separates the inseparable. For this reason, liberal practice backfires: the regulation of the economy spawned by liberalism entails the regulation of ideas as well.

Consider, for example, the Federal Communications Commission. Under its power to regulate the broadcast media, it sets criteria that stations must meet to obtain and renew FCC licenses. These criteria include regulations on the content of what is broadcast. The Commission enforces the "fairness doctrine," for example, which requires broadcasters to give air time to opponents of views and politicians they have presented. The FCC also hears petitions from people who object to material presented on the air, and it has the power to revoke the licenses of offending stations. These powers are based on the liberal doctrine that the airwaves are a material resource that should be used in "the public interest." But the con-

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sequence is a substantial control over the ideas presented through this medium.

Medical Controls

Another obvious example is the regulation of medicine, which has mushroomed in recent years. The *New York Times,* noting "the increasing bureaucratization of medicine," points out that "today the Federal Register, with its daily avalanche of new rules and regulations, is the highest authority in American medicine."[2] Among other regulations, doctors are told how, where and at what cost they may treat patients, as well as which patients they must treat. The liberal justification for this is the material well-being of the patients. They overlook the fact that they are destroying the freedom of doctors to use their own minds, to disagree with the regulators, to try new products and techniques, in treating patients. In short, doctors are losing their *intellectual* freedom, just as if journalists were told by the government how they must write articles, where they may publish them and for what fee.

A more gruesome constraint threatens to arise over the issue of abortion. The Supreme Court recently ruled that a woman has the right to terminate a pregnancy if she wishes, and that the state may not prevent her from doing so. In my opinion, the Court was right in this decision. But of course it does not mean that doctors and hospitals are legally obliged to provide abortions. Yet there are signs of a movement to enforce such an "obligation." According to the liberal doctrine of "economic rights," everyone has rights to have – not to acquire by voluntary exchange, but to have provided them – various economic goods that are considered necessities. If abortions move into that category of goods, liberals will doubtless argue that doctors and hospitals may not refuse this "right" to women desiring abortions. This would all be in the name of purely economic welfare, of course. But consider the violation of liberty involved. Some doctors are morally opposed to abortion, regarding it as murder. One may disagree with them entirely, but surely there is no more hideous form of tyranny than forcing someone to commit what he regards as murder. Yet this is the implication of an "economic right" to abortion.[3]

A final example is the subsidies

[2] *New York Times,* June 24, 1975. Editorial.

[3] Most liberals, fortunately, would not carry their principles this far, but cf. Lucy Komisar's "My Turn" column, *Newsweek,* June 9, 1975.

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to artists, writers and academics granted by such government agencies as the National Endowment for the Humanities or the various state councils on the arts. These subsidies constitute an establishment of ideas and artistic trends; and they should be prohibited for the same reason that the state is prohibited from establishing religion. Liberal proponents of the grants argue that they are designed to support the artist or the intellectual, not to support his art or his ideas. They are supposed to be a specialized form of welfare. But why are such grants felt to be necessary? Because the beneficiaries could not otherwise support themselves by their work. And why is that? Because the public, exercising its judgment about their work, will not voluntarily support them by buying their products or contributing money to them directly. The government policy of subsidies is a way of reversing these judgments by force (through taxation). The taxpayers have tastes, standards, and values; they express them through purchases of art-works, books and theater tickets; their money is their means of expression. By confiscating the means, the government violates their freedom of expression.

So far as one can tell, the liberal sponsors of these regulations were not aiming at thought control. Liberals generally place themselves on the side of reason and the individual's freedom to use his mind, and they seem genuinely outraged at any violation of that freedom. This in itself is an interesting comment on the liberal philosophy. It implies that in their view the use of property does not require the use of the mind; that there is an utter gulf between an intellectual world of ideas and a material world of commerce. Despite its alleged modernity, liberalism is caught up in a mind-body dichotomy with which Plato or Augustine would have felt quite at home. Nevertheless, industry and commerce are works of the mind, requiring as much disciplined, rational thought as a scientific discovery. The liberal bureaucracy that regulates this work is regulating the minds of men.

A Systematic Attack

Beyond these actual violations of liberty, moreover, the liberal doctrine has opened the door to precisely the sort of conscious, systematic attack on liberty from which liberals themselves would recoil. Many extreme leftists have lost any attachment to intellectual liberty; they are prepared to suppress the opinions of those who disagree with them. But no Western country would yet tolerate an

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explicit censorship of ideas. The left must therefore proceed by indirection, covering its tracks as it seeks control. The liberals have offered them the perfect device. Because of the connection between liberty and property, government controls over the expression of ideas can be disguised as common and familiar controls on property. Modifications of established economic controls can be used to silence dissent. Thus the liberal precedent of a regulated economy may help bring about the regulation of ideas as well.

Canada and Britain have recently furnished examples of how this works. In Britain, the issue is one of labor law. Under the Conservative government of Edward Heath, the closed shop had been banned; but the Labor Party, returned to power last year, is moving to restore it. If they are successful, the government would back the closing of a shop, making union membership a condition for employment. This in itself is a fairly typical form of labor law. But it is being put to a new use. The National Union of Journalists, "an increasingly militant union,"[4] insists that a closed shop in a newspaper must include editors and writers as well as other staff: the former must join the union, take part in union-authorized strikes, and refuse to publish non-union writers. (This could even prevent publication of letters to the editor from non-union writers.) And part of the reason for the union's militancy on the issue, it seems clear, is a desire for control over editorial content. In a country where *the* social issue is the power of the unions over the economy, this would give one party to the dispute control over what may be said on the issue.

The Canadian case involves a technical matter of tax policy. The cost of advertising in the print media can normally be deducted as a business cost for tax purposes. Ten years ago, Canada restricted this deduction to advertising in Canadian publications, but allowed the Canadian editions of *Reader's Digest* and *Time* (and a few smaller magazines) the same conditions as their Canadian competitors. A bill has recently been introduced in the Parliament, however, that would terminate this allowance. If passed, the cost of advertising in the American magazines would not be deductible, thus effectively doubling that cost. Spokesmen for *Time* and *Reader's Digest* say they could not continue in business. Nevertheless, the bill is expected to pass.

The new legislation appears to be nothing more than a modifica-

[4] Brian Wicker, "Unionizing the Editors," *Commonweal*, April 11, 1975.

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tion of established policy. That is the point. An established precedent serves as the vehicle for a new intent: to regulate ideas. The nationalist sponsors of the bill resent the American "cultural influence" represented by these magazines. In regard to *Time*, the nationalists object that it "gives Canadian readers a view of the United States and the world through the eyes of American editors writing in New York."[5] Thus the government's tax policy is to be used to censor views that certain groups disagree with. The intention is to keep from the eyes of *Time*'s large Canadian readership a set of opinions that their government finds unsuitable. This is an open, explicit attack on the freedom of the press — on the right of liberty — but it is masked as a simple matter of taxes.

Advocacy Advertising

A similar restriction on freedom of speech has been attempted within the United States government. Like the foreign cases, it seems minor in scope, but its implications as precedent are enormous. It concerns the recent phenomenon of "advocacy advertising."

The oil shortage of 1973 and 1974 brought with it an hysterical barrage of attacks on the oil and power companies, who were charged with causing the shortage in order to increase profits. To defend themselves, many of these companies used paid advertising space to explain the causes of the shortage and their own actions in regard to it. Some of them went further, to defend free enterprise, the legitimacy of profits, and the evils of government regulation. These advertisements provoked a new wave of criticism from liberal columnists, who argued that the companies were wrong on all counts.

In January, 1974, however, a group of three Senators and three Congressmen[6] tried to go beyond mere argument. The Federal Trade Commisison requires that commercial advertisers must be prepared to document any claims they make about their products — a rule many liberals endorse as a protection of the consumer. The legislators petitioned the FTC to extend this rule to advocacy advertising. Citing advertisements by Exxon, Mobil, Shell, General Electric, and the American Electric Power System, among others, the petitioners claimed that the ads made "misleading claims

[5] *New York Times*, March 21, 1975.

[6] Senators Thomas J. McIntyre, Frank E. Moss, and Birch Bayh; Representatives Les Aspin, Benjamin Rosenthal, and Andrew Young.

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about energy crisis causes and environmental effects of corporate activities."[7] The companies, they said, should be compelled to prove these claims or else withdraw them.

Implications in Economics, Technology, Politics, Ethics

Consider the implications of this petition. The issues it mentions[8] are among the most controversial of the day. They involve abstract questions of economics, technology, politics and ethics. And the petitioners want to prevent the expression of non-liberal opinions on these issues. They are saying, in effect: before a viewpoint may be published, the government must be convinced of its truth; if an advocate disagrees with the regulators, he must either change their minds or remain silent. This is censorship, an explicit attempt to suppress dissenting opinion. Even worse, the censorship was directed at the victims of government regulation, who were taking their case to the public. The petition was thus an attempt to prevent the victims of coercion from standing up for their rights.

The fact that the censorship was proposed only for advertisements is irrelevant. Other federal agencies have control over the other media of expression; the universities, because they receive federal aid, are increasingly coming under federal control; the precedent could easily be extended to all forms of expression. Indeed, if freedom of speech does ever die in this country, it is likely to happen in just this way: not choked off dramatically by jackbooted censors, merely smothered in a blanket of the sort of regulations we have grown used to. It is the more important, therefore, to recognize that this is censorship.

Fortunately, the FTC rejected the petition, arguing that advocacy advertising is protected by the First Amendment. According to *Advertising Age*, however, the Commission reserved the right to take action against such advertisements "if they are 'unfair or deceptive,' and their commercial effect outweighs First Amendment considerations."[9] This means that the government claims the right to pass judgment on fairness and deception – i.e., on truth – in the discussion of controversial ideas. This constitutes a control over ideas. For this reason, at least one of the petitioners, Repre-

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[7] *Advertising Age*, May 5, 1975.

[8] According to a story in the *New York Times*, May 1, 1975, the petition mentioned "environmental, political and public policy issues."

[9] *Advertising Age*, May 5, 1975.

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sentative Benjamin Rosenthal, regarded the FTC decision as a partial victory.

These recent events represent a quantum step along the road to serfdom. Violations of property rights, which have become quite common, are implicitly violations of the right to liberty; and they are wrong not least because of that. But a restriction of the freedom of speech and press is an *explicit* violation of the right to liberty; and that is much worse. It is an open, naked attack on the source of human values, the source of independence, and the source of property – man's mind. A campaign against man's ability to act on the basis of his own reason is the crucial step in the collectivist assault on the individual. And it should be resisted as such. Advocates of capitalism should defend freedom of speech and press, and the right to liberty generally, above and beyond the issue of property rights.

But in the end the individual's right to use his mind cannot be implemented, and certainly will not be safe, until his right to acquire and use property is acknowledged and protected by a limited government. For it is precisely the disregard of property rights that has opened the door to suppression of ideas. Human freedom is an integrated whole; no part of it may be destroyed without endangering it all. Communist totalitarians understand this: a guide to taking over a Western democracy, purportedly written by a Soviet Central Committee member, asserted that "The destruction of the private sector [of the economy] is the first step toward eliminating an independent press."[10] It is time that American liberals learned the same lesson.

[10] The document was printed in space given by *Le Quotidien de Paris* to the editors of *Republica*, the Lisbon newspaper that has been closed by the left-wing Portuguese government.

Control of Persons

IDEAS ON LIBERTY

BEFORE THE GOVERNMENT can control the land and its produce, it must first control the man who lives and works upon the land. That means control over his mind and spirit. That is exactly what the Soviet leaders found when they decided to collectivize the Russian farms; they had to collectivize first the minds and spirits of those who had been independent kulak farmers.

RUSSELL J. CLINCHY, *"Two Paths to Collectivism"*

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The Free Market:

Eternally There

EARL ZARBIN

A RECENT PASSAGE caught my attention: "Though the free market is the most efficient allocator of scarce resources mankind has yet discovered, it is not a popular concept." The writer then suggested that "Its lack of popularity is probably due to a misunderstanding of the manner in which it works."

These should be words enough to provoke to thought any person who cares about freedom and its survival in a world that increasingly seems to embrace coercion or its threatened use as the answer to real and imaginary problems. I wish to limit my observation to two key points:

1. I don't believe mankind "discovered" the free market.
2. I don't believe the free market is unpopular because of a "misunderstanding" of how it works.

As to the first, the free market develops of its own accord in a society where government is limited to the safeguarding of life, liberty and property. The free market did not have to be discovered in the usual sense of the word. It does need to be recognized and it does need to be continually explained so its miracles can be understood and appreciated, but it didn't require discovering.

It grew in these United States – and it will grow – of its own accord, without a specific design, because the framers of the rules of the American society established the conditions for the release of "creative energy" – as Leonard Read would say. These men, in their deliberations, did not

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direct that the economy follow any particular pattern, save that in not decreeing an economic plan they left the manufacture of goods and the growing of agricultural products, and their exchange, to the freely made choices of the men and women who produced them.

I repeat: the free market did not have to be discovered, but it does have to be recognized for what it is and it has to be explained. It is a marvelous, efficient, awesome mechanism that will meet the needs of this earth if the people have freedom.

Which leads to my second point: the free market doesn't lack popularity because it is misunderstood. On the contrary, because it is understood it is unpopular.

I don't mean that it is perfectly understood. Rather, I mean it is sufficiently understood so that numberless people want nothing to do with it (except reap its benefits while tearing it down).

I don't know all the reasons people can come up with to disavow the free market; but the functioning of the free market demands self-reliance, self-discipline, self-responsibility, and self-restraint. The free market demands of each of us the necessity of work, of developing skills, of offering goods and services which other persons will willingly exchange for their own products and talents.

Results Not Guaranteed

The free market offers us the opportunity to get rich, or poor, in competition with everyone else. The free market doesn't offer us special privileges, favors, subsidies, breaks, exemptions, monopolies, handouts. And it is this that accounts for the free market's unpopularity.

People want their needs met with as little toil as possible. The free market doesn't offer something for nothing. They have that much understanding of the free market, and that's as far as many of them want to go in learning about it.

If the free market were perfectly understood, if all its benefits could be made more obvious, among some people it still would lack popularity. There is nothing that supporters of the free market can do to change these people. Our job is to learn as much as we can about the free market, to learn to explain it, and to try to make our findings available to any who want to share in them. If they are shared, perhaps some among those who dislike the free market will examine what it offers, change their opinions and become its supporters.

It is true that such persons may *discover* the free market, but it has been and is there eternally where men are free.

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CAPITALISM: Definition — Origins — Dynamics

V. ORVAL WATTS

DEFINITION

CAPITALISM, according to the dictionaries, commonly means *private ownership* of the means of production.

Private ownership means that individuals *control* their own persons, their own energies, and the products of their energies. It prevails to the extent that individuals do not restrain or interfere with one another as they use, exchange (sell) or give away what they find unclaimed or abandoned, what they make, and what they get from other persons by gift or exchange (purchase).

ORIGINS

Capitalism has its origins, therefore, in individual *freedom* and in all of the ideas, sentiments and modes of conduct that establish this freedom.

Freedom implies that individuals do not coerce, intimidate or cheat one another. This means that they do not use violence or fraud to injure one another or to deprive one another of possessions obtained by peaceful means, and that they do not threaten to injure one another in their persons or properties.

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This article is from a chapter of a new and revised edition of *Free Markets or Famine — selected readings by various authors showing* how freedom for private enterprise allows business to abolish famine and raise levels of living. This book, and a companion volume, *Politics vs. Prosperity,* showing the results of regulation and controls, are published by Pendell Publishing Company, P.O. Box 1666, Midland, Michigan 48640.

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This freedom develops as individuals learn that, over a period of time, they gain more from cooperation motivated by hope of reward than they do from services performed under threat of violence. In other words, they gain more in the long run by production and exchange of goods and services than they can get by stealing, fraud, banditry or other forms of predation.

In short, capitalism arises as individuals (a) learn the advantages of division of labor and voluntary exchange, and (b) discover and live by the moral laws (rules of conduct) necessary for peaceful relations, one with another.

This progress requires growing understanding of the nature of man and the meaning of justice, together with appreciation for honor, truth, and goodwill toward more and more of their fellow humans.

The elements of moral law are set forth in what Judeo-Christians refer to as the "Ten Commandments" and the "Golden Rule."

The negative form of the Golden Rule expresses the first principle: "Do *not* do unto others what you would *not* have them do unto you." This restrains and casts out forced sharing, which is a form of enslavement.

A later corollary and supplement of earlier statements—"Whatsoever ye would that men should do unto you, do ye also unto them" — arose out of recognition that we benefit, not merely by avoiding injury to others and the ensuing conflicts, but by voluntary exchange of services and by developing habits of mutual aid and neighborliness. (Cf., the neighborly barnraisings and other forms of mutual aid in pioneer days, and the parable of the Good Samaritan.)

Insofar as individuals cease to steal from one another, cease to cheat (lie), cease to coerce or intimidate one another, and keep their agreements (including those establishing the monogamous family), they gain freedom.

But this freedom develops only gradually with increasing understanding and self-restraint. No "man on a white horse," no dictator or government can give it to us. Individuals must learn to understand it, accept its responsibilities, and teach it to oncoming generations.

DYNAMICS

A. Production and Exchange

In such absence of coercion, more and more persons attain prosperity, which Frederic Le Play defined as a "multitude of good acts." They let one another keep or exchange or give away

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what each produces or gets by voluntary exchange or gift. They then produce more, accumulate more, trade more, and give more to others.

They give more to their customers and fellow workers in exchange for what they get; and they give more to their offspring, their friends, their neighbors, and victims of misfortune. (Note that the early Plymouth and Jamestown colonists were more charitable toward their neighbors, as well as more industrious, after they abandoned forced sharing.)

Free persons invent and adopt ways of mutual aid that are beyond the devising or imagination of slave masters and political planners. Therefore, they prosper.

B. Individuation — Competitive Cooperation — Large-Scale Organization

(1) In freedom, humans show increasing variability in capacities and responses. Therefore, capitalistic (free) enterprises develop an increasingly great range of changing occupations, commodities, services, and opportunities for self-development and satisfaction of individual wants.

(2) Because of the enormous advantages of cooperation, more and more individual members of a capitalistic society show increasing regard for the interests, desires, tastes and opinions of other persons, increasing sensitivity, sympathy, and fellow-feeling (empathy), *along with increasing individuation in ways of expressing these attitudes.*

Some individuals go to extremes in trying to please everybody and consequently truly please nobody. ("The surest road to failure — try to please everybody.")

Others use or abuse their freedom by displaying (or pretending to display) an exaggerated indifference to prevailing (popular) customs, sentiments, and manners, and a lack of concern for the opinions of other persons.

In freedom, however, individuals cooperate more readily with such peaceable persons as have more or less similar standards in morals, manners, and tastes, but with complementary (rather than identical) interests and abilities in work. The word "complementary," or "supplemental," deserves emphasis, because many or most forms of cooperation arise out of *differences* in abilities and interests rather than out of similarities (e.g., farmers and manufacturers, merchants and bankers, truckers and mechanics).

(3) The many similarities of abilities and tastes, however, make a free society highly competitive

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as well as cooperative. Competing individuals and competing groups offer similar (though seldom identical) services to consumers, and similar (but not identical) jobs to wage earners (e.g., coal miners and oil producers, savings banks and stock brokers, or manufacturers of different sizes and makes of cars).

Among free and peaceful persons (i.e., in a completely capitalistic, or free-market, voluntaristic society), this competition consists in trying to offer more satisfactions in order to *induce* cooperation rather than in threatening others with injury in order to *compel* submission and obedience.[1]

(4) In freedom — in the absence of coercion — individuals keep and control without coercive interference what they acquire in peaceful ways. That is, they may keep, control, consume, give away or trade what they find in nature, what they make or invent, what they get by gift (as from parents), and what they get by voluntary exchange, including the temporary uses of things for which they pay rent or interest.

The rights of private ownership are the rights to enjoy and use wealth and the services of free persons without physical interference or threat of interference from other persons. These are rights of *adverse possession,* that is, the rights of *exclusive* use and disposal (along with the responsibilities of control and care).

Therefore, capitalism (private ownership) is individualistic. That is, what one person owns, no one else may own. He has exclusive control of it. But he also has exclusive responsibility for it: to care for it, and to see to it that use of it does not interfere with the freedom (property rights) of other persons.[2]

The indescribably complex agreements as to property rights (protected by law, morals, customs and manners) constitute freedom. That is, freedom means

[1] Socialists confuse inducement or persuasion with coercion. They fail to see that freedom to cooperate exists only insofar as there is freedom *not* to cooperate, along with freedom to communicate without harassment.

[2] Socialists commonly confuse this exclusive control by property owners with the very different type of monopoly which may be obtained by restricting the freedom of would-be competitors in use of their own energies and properties. For example, the United States Post Office maintains its monopoly of distributing first-class mail by using the police powers of government to suppress competition. Coercive interventions by government or immoral and illegal private violence, or both, are necessary to maintain such monopolies. This is not freedom. It is not laissez-faire capitalism. It is curtailment of free enterprise. It is a negation of the rights of private owners.

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agreements, implicit or explicit (i.e., tacitly accepted or formally stated) among members of a society, agreement that individuals shall have undisturbed control of their persons and the fruits of their energies, skills, thrift and enterprise in trade.

C. Equity vs. Equality

In freedom, there is equity (justice), not equality of rewards for effort. When individuals are free to choose with whom they trade and how much they offer in exchange, some individuals and groups acquire greater aggregations of wealth than do other individuals and groups. A particularly productive group of producers (e.g., a business firm), then, may become so industrious, inventive, cooperative and efficient that they supply most of certain commodities or services for a large proportion of a given community or nation. So concerns like Ford Motor Company grow to giant size; or a group of firms, like those making up the General Motors Corporation, cooperate in some respects (e.g., in obtaining capital) while competing in others (e.g., sales).

But, in appraising these giant concerns, we should keep in mind that:

(1) They get and hold their economic power only to the extent that they serve a correspondingly large number of their fellow humans. No company becomes great *in free markets* by catering to a few rich capitalists. They grow to giant size only as they help raise levels of living for thousands or millions of other producers and their dependents — *unless they are favored by anti-capitalistic policies of government engaged in war, currency inflation or suppressing would-be competitors* (as, for example, the United States Government suppresses competitors of the Post Office).

(2) Increasing abundance and diversity of goods make the demand and supply of every product more and more elastic. Buyers find a growing diversity of goods competing for their patronage. Wage earners find a growing number of employers with capital seeking to employ them. Capital owners are besieged by inventors and promoters seeking backing for new ways of satisfying wants or ways of satisfying wants of which consumers are as yet scarcely aware.

The most inelastic factor in a free society of responsible individuals is likely to be in the supply of wage earners (job seekers). Therefore, they benefit most from the competition of capital seeking investment, and they get an increasing share of the total product. Wages and wage rates tend

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to rise, therefore, while rates of interest fall.[3]

D. Progress: Rising Levels of Understanding, Morality, Prosperity, Vision

Individuals in freedom prosper as they win the freely given cooperation of their fellows.

Therefore, their self-interest and family interests provide strong incentives to develop habits and concern for the qualities that other persons want in their co-workers and suppliers. These are such qualities as industriousness, courtesy, and sensitivity to the interests of other humans.

As a result, free persons tend to buy goods (commodities and services) which contribute to their efficiency as producers and enable them to discharge their countless responsibilities.

For this reason, the output of "industry" in freedom tends to become more wholesome; the health and vigor of the population improve; life expectancies tend to lengthen; and tastes in art, drama, music and literature rise.

Accustomed to these rewards of progress, members of a free society tend more and more to expect and strive for improvement in the lives of their neighbors as well as in their immediate circle of family and friends.

At this point, a dangerous ideology may become fashionable. It has been well named, "the Utopian Heresy." Impatience with the real or fancied shortcomings of other persons may prompt efforts to hasten improvement by use of a little legal coercion — on a few at first, and on more and more of their supposedly backward fellows as time passes.

In this way, free and prosperous individuals may combine to infringe the freedom of their neighbors while intending only to do them good. And, as they set precedents by such coercive "reforms," others use the same arguments for more and more infringements for similar "good" ends. Thus, freedom declines.

This loss of freedom deprives individuals of opportunities and responsibilities. Therefore, it gives rise to worse conditions, which the confirmed ideologists attribute to what freedom remains. Long ago,

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3 The rise in interest rates during the past 60 years has been due to the anti-capitalistic policies of governments — wars, inflation of currencies, waste of resources, and forced redistribution of wealth and income.

The rise in certain land values has been aggravated by socialistic policies, which tend to concentrate populations in favored cities, thus retarding the development of less densely populated areas, whose small populations lack political power. Most of the world's land area is still sparsely populated and is cultivated only by extensive methods.

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a now-forgotten philosopher observed that "Mankind is a race which binds itself in chains – and calls each fresh link *progress*."

A wealthy society – prosperous because of a longer period of freedom – can afford more waste (idleness, paternalism, wars, parasitism and socialism) than a society that is poor because its people have had little freedom.

But for any community or nation, a continuing decline of freedom must at last bring on a collapse in bankruptcy, chaos, revolution and/or subjection to political tyranny.

Prosperity has its perils, not least of which is the peril of forgetting how it was achieved.

IDEAS ON LIBERTY

The Fruits of Capitalism

IN THE FEUDAL SOCIETY the economic situation of every individual was determined by the share allotted to him by the powers that be. The poor man was poor because little land or no land at all had been given to him. He could with good reason think – to say it openly would have been too dangerous – : I am poor because other people have more than a fair share. But in the frame of a capitalistic society the accumulation of additional capital by those who succeeded in utilizing their funds for the best possible provision of the consumers enriches not only the owners but all of the people, on the one hand by raising the marginal productivity of labor and thereby wages, and on the other hand by increasing the quantity of goods produced and brought to the market. The peoples of the economically backward countries are poorer than the Americans because their countries lack a sufficient number of successful capitalists and entrepreneurs.

A tendency toward an improvement of the standard of living of the masses can prevail only when and where the accumulation of new capital outruns the increase in population figures.

The formation of capital is a process performed with the cooperation of the consumers: only those entrepreneurs can earn surpluses whose activities satisfy best the public. And the utilization of the once accumulated capital is directed by the anticipation of the most urgent of the not yet fully satified wishes of the consumers. Thus capital comes into existence and is employed according to the wishes of the consumers.

LUDWIG VON MISES, *The Elite under Capitalism*

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MY SEVENTEEN-YEAR-OLD SON had a semester of economics as part of the history requirement for the eleventh grade. The text – you've guessed it – was Samuelson. As far as I could determine, the course was well-taught. The questions of "what," "for whom," "how much," etcetera, may have blurred the prime matter of economic motivation, but they did not quarrel with the ideas that the end of production is consumption or that the study of economics circles around the utilization of scarce means. The instructor betrayed no bias; it was not treated as a sin when a boy, referring on a term paper to the condition of England, made a derogatory remark about the ineptitude of labor government "planning."

The course, however, seemed to me overweighted on the "macro" side. There was a lot about "GNP." Samuelson is strong on the description of things-as-they-are, and, after forty-five years of interventionism, the tendency is to take such things as inflation (say at a three per cent annual rate), fractional reserve banking and some government "stimulation" for granted.

The individual tends to get lost in the "macro" approach, and the critical faculty inevitably gets dulled. We see things in terms of aggregates and large contours, and individual purpose gives way to supposed group needs and desires.

The accent on the group leads, by slow degrees, to socialism. But socialism ignores the human start-

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ing motor, which is always inside the mind and body of a single, separate person.

The Uncoerced Individual

What is obviously needed, in high schools, is economic instruction that begins with the starting motor of the uncoerced individual. To overcome the deficiency, Bettina Bien Greaves of the Foundation for Economic Education staff has prepared a two-volume work, *Free Market Economics* (FEE, $10.00 per set), comprising a text book plus an anthology. The *Syllabus,* a wide-ranging and deeply penetrating treatise, takes off unabashedly from Ludwig von Mises' "Austrian" economics. And to supplement the *Syllabus,* Mrs. Greaves has compiled a companion Free Market Economics *Basic Reader* consisting of material drawn largely from *The Freeman.*

Lest the reader get the idea that the eighty-one selections in the *Basic Reader* are from purely contemporary sources, it should be noted that such ancients as Frederic Bastiat, David Ricardo, James Madison, Abraham Lincoln and Jean Baptiste Say are represented here, along with a FEE "Clipping of Note" taken from Karl Marx's and Friedrich Engels' *Communist Manifesto,* which, like Adolf Hitler's *Mein Kampf,* provided ample warning of what totalitarians intend for the underlying population whenever or wherever they achieve power. The *Manifesto* dates back to 1848, and it is still deluding people.

The syllabus begins with "basics" (i.e., the nature of the individual, the need for private property if there is to be free exchange, and the voluntary cooperation that creates the miraculous "interconnectedness" of the free market). Then comes a section on "principles" (pricing, savings, the role of tools, labor and wages, money and credit, competition and monopoly, and cross-border trading). Finally, there is a section on historical and political aspects, designed to give the teacher some grasp of both economic history and the history of economic thought.

Like musical motifs, the root ideas of Ludwig von Mises are sounded again and again throughout the text. Men act purposefully within the limits imposed by the natural and social orders, each one of them trying to relieve "felt uneasinesses" of one sort or the other. The effort to satisfy as many wants, both material and non-material, as is possible with the means at hand is enough to explain pricing, which varies with the individual's need and will to trade.

The seller has his "felt uneasiness," too – he has his living to

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make. He will, naturally, have more of a product to sell if he has the advantage of good tools and a ramifying division of labor. The "felt uneasiness" of empty stomachs means that workers will have the incentives to take jobs and to specialize in accordance with their native skills. And the difficulty of arranging for barter leads to the special commodity known as money.

The "Invisible Hand"

Individuals become interconnected and interrelated through the market, which seems to be regulated by an "invisible hand." Invisibility does not mean that things are haphazard. Men have logical faculties, and can reason from axioms, or self-evident truths. They know there is regularity in the universe; the sun rises in the east and sets in the west. There is causality. And all things take place within a context of time and change. Men's subjective desires are arranged according to a scale of personal values. And it is the subjective nature of value that decides where economic "margins" will lie. If not enough people want a given good or service at a price, the seller will have to come down a peg or two in order to keep from being stuck with inventory. Marginal utility defines what will be made. It does not guarantee that the seller will always recover the labor costs that go into the making of a product. So there can be no "labor theory of value." But if there is no recovery of cost at the margin, the margin itself will change.

The von Mises system is, of course, the refinement of the "Austrian" system, which was pioneered by Carl Menger. Menger was a Charles Darwin in a school that had its Alfred Russel Wallaces, co-discoverers of a theory that provided the missing key to free market economics. The co-discoverers – Jevons and Walras – used mathematics to explain marginal utility. Menger favored the "literary" approach, couching his arguments in terms of logic. Since mathematics means statistics, and statistics are "past history," the Menger approach is handier for those who want to direct their attention to the individual as the creator of the future.

No Instantaneous Miracle

There is so much in Mrs. Greaves' syllabus that one questions the ability of the average high school teacher to impart its wisdom to students in the course of a single year. But the idea is to get prospective teachers to open their minds to the whole neglected panorama of free market thought, which necessarily entails application over many, many years.

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Mrs. Greaves is profuse with her recommendations for supplementary reading of all the great and near-great texts. The teacher of free market economics can hardly bite off Adam Smith's *Wealth of Nations* and Ludwig von Mises' *Human Action* in a couple of months. But Mrs. Greaves is not looking for an instantaneous miracle.

Her own *Basic Reader* makes use of the small gem to illustrate the important truths. Roger Williams tells us how completely individual every one of us is. (Exit, the "planned" economy.) Henry Hazlitt explains why a broken window, though it may be a boon to the glass manufacturer, means a lost sale for a tailor. John Campbell brilliantly illuminates the case for tools by noting the role of the horse collar in expanding traffic in medieval Europe. Percy Greaves, Jr. proves in depth the common sense of William Graham Sumner's random remark that the "amount of money in a country will do the work of the country." A single passage from Ricardo establishes the law of comparative advantage in foreign trade. J. B. Say shows that production creates all the income needed to "clear the market." And so it goes.

If there is one thing that seems to be missing in Mrs. Greaves' anthology, it is Friedrich Hayek's bit from *The Road to Serfdom* that shows why, under State planning, it is the "worst" that get to the top. Gustavo Velasco's "Intervention Leads to Total Control" tells us all we need to know about the economic end of State interference, but Hayek's essay is needed to remind us that it takes a gang of hardened thugs to make control stick.

▸ THE GROWTH OF THE AMERICAN GOVERNMENT by Roger A. Freeman. (Stanford, California 94305: Hoover Institution Press), 228 pages, $8.95 hardcover; $5.95 paperback.

Reviewed by William H. Peterson

BUSINESS ANALYSTS fear a critical capital shortage in the U.S. within ten years. What is the *cause?* Where has the *potential* capital gone?

Roger Freeman, Stanford Hoover Institution economist, supplies one hard answer: It's been devoured by government with its enormous appetite for the nation's resources. It's gone into taxes that impede "individual productivity and industrial success." It's gone into a massive redistribution of national income from producers to nonproducers, from production into consumption, from capital formation into a raft of programs

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like Food Stamps, Aid to Families with Dependent Children, and the biggest domestic program of them all with a truly prodigious appetite for resources and potential capital – Social Security.

Consider Social Security and other federal payroll taxes, which, as Dr. Freeman notes, have been growing faster than any other federal levy. This payroll "take" is estimated by the Office of Management and Budget at $86.3 billion for 1975, which amounts to more than twice as much as expected corporation income tax receipts of $38.5 billion estimated for 1975, and about three-quarters of the expected individual income tax receipts of $117.7 billion. Federal payroll taxes amount to about three-quarters of the $116.0 billion expected to be spent on fixed capital formation this year, meaning, expenditures for new plant and equipment planned by American businessmen in 1975, as surveyed by the Commerce Department's Bureau of Economic Analysis. The national government diverts $86.3 billion into "transfer payments" instead of permitting individuals to invest this sum as they decide in job-producing industry.

There are solid grounds for believing that Social Security recipients would be better off in their old age if they had not put their "contributions" into current government expenses but into capital formation – directly into stocks and bonds, or indirectly via private insurance annuities or pension plans. Either way, not only would these people likely be better off but the country and especially the American worker would also be better off – thanks to greater productivity, rising wages, and less inflation.

But the $86.3 billion payroll tax is but one facet of the federal budget, which, according to a recent House-Senate Budget Committee conference, will come to $367 billion in the 1976 fiscal year which began July 1st (involving a deficit of $68.8 billion).

Related to the problem of government absorbing an ever larger percentage of GNP – and potential capital – is a continuing increase of what Dr. Freeman calls "welfare dependency," with its attendant disincentives to work, save and invest. He draws a distinction between genuine welfare needs and actual welfare programs. Economic growth has already greatly reduced the number of families at the poverty level. The rub is that the Government keeps redefining and generally easing the definition of poverty. This means lowering qualifications for eligibility for most any given welfare program, so that the welfare population burgeons in good times and bad.

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Dr. Freeman is alarmed and writes: "The sharp rise in the number of female-headed families – between 1970 and 1973 at more than twice the annual rate of the 1960s – is an ominous sign for prospects in welfare dependency."

There are literally hundreds of programs on the books, but there is always room for more; mass transit, environmental improvement, a nationally guaranteed annual income and national health insurance, among many other proposed programs. The cost of pending health insurance bills alone varies from $6.5 billion annually for the Administration's Comprehensive Health Insurance Bill to an estimated $60 billion for the Kennedy-Griffiths Health Security Bill.

The irony of such proliferation is its persistence in the face of a rising tide of program failures. Shiny new public housing projects become instant slums. Major cities, under the impact of federal policies and by their own actions, are increasingly transformed into islands of poverty, crime, decay and other social ills. (Dr. Freeman bemoans the plight of bankrupt New York City, as a case in point.) The quality of education sinks as federal aid to the schools mounts. (Dr. Freeman notes that mean scores on college board entrance tests declined dramatically during the decade 1962-1973.)

The Hoover Institution economist is concerned by the fact that economic growth is being choked off by the rising welfare state, but he is also alarmed over implications for national security. From 1952 to 1972 defense expenditures dropped from 14% to 7% of GNP, while domestic expenditures increased from 12% to 26%. Russia has meanwhile been building up its war-making powers, so that under current trends "the Soviets are headed for a decisive military superiority."

Whither America? asks Roger Freeman in this important book, and the serious reader echoes the question: Whither, indeed!

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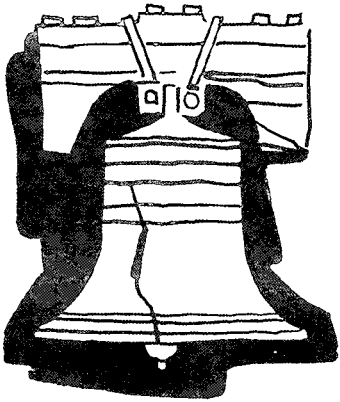

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